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EFFECTS OF BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 ON U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

(GRAMM-RUDMAN-HOLLINGS)

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST AND SECOND SESSIONS

OCTOBER 29, 1985 AND JANUARY 29, 1986

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EFFECTS OF BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 ON U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

TUESDAY, OCTOBER 29, 1985

House of Representatives,
Committee on Agriculture,
Washington, DC.

The committee met, pursuant to notice, at 1:05 p.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Jones of Tennessee, Weaver, Bedell, English, Huckaby, Glickman, Stenholm, Tallon, Thomas, Olin, Penny, Madigan, Stangeland, Emerson, Gunderson, Evans of Iowa, Chappie, Franklin, Lewis, Combest, and Schuette.

Staff present: Phillip L. Fraas, counsel; William E. O'Conner, Jr., assistant minority staff director; John E. Hogan, minority counsel; Mark Dungan, minority associate counsel; Glenda L. Temple, clerk; Bernard Brenner and Howard Conley.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will come to order.

On behalf of the committee I would like to welcome Dr. Thompson, Mr. Dewhurst, and Mr. Kelly, and thank you for responding so quickly to our request.

The reason for this meeting is that we have pending in conference legislation more readily identifiable as Gramm-Rudman that, in part, has a provision that would authorize the executive department together with the legislative department of our Government and adjuncts, the Congressional Budget Office and OMB, in the handling of reductions if triggering mechanism were to work.

Our only purpose here is not to make or not make votes or influence or not influence, but to find out from the Department to what extent you are acquainted and if you have made any projections as to how you would handle certain aspects of that legislation so that we might have that information handily as we debate the legislation in the conference report this week or next week.

That's the purpose of the meeting, and we appreciate your cooperation.

If you have any statement that you would care to make at this time, Mr. Thompson, we will hear from you, and then I guess the best course after that would be to proceed with questions from the members and then have you address them if you have adequate responses for them.

STATEMENT OF ROBERT L. THOMPSON, ASSISTANT SECRETARY, ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY J. MICHAEL KELLY, ASSOCIATE GENERAL COUNSEL, AND STEPHEN DEWHURST, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

Mr. THOMPSON. Very fine, Mr. Chairman. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today to discuss the impact of the proposed action on budget deficit reduction on American agriculture.

With me today are J. Michael Kelly, Associate General Counsel, and Stephen Dewhurst, Director of the Office of Budget and Program Analysis, both in the Department of Agriculture.

Reduction of the Federal budget deficit potentially is the most significant legislation of the 1980's in terms of the impact on American farmers. People across the heartland of this Nation want, and expect to know, what the administration and Congress are going to do about deficit reduction. Rural Americans are well aware that their future financial well-being is on the line.

Probably more than any other item on the congressional agenda this year, the Gramm-Rudman-Hollings amendment holds the best news possible for American agriculture. The growing national debt is a legacy future generations will inherit. We currently owe ourselves more than $1.8 trillion.

I call your attention to the charts I have over here on the side. According to the Congressional Budget Office, without any restraint that figure is likely to grow to as much as $3 trillion by 1990. Currently, it requires 15 cents from every tax dollar just to pay the interest on the national debt, interest payments which will increase along with that debt.

I point out on the chart that in 1985 these interest payments are running $130 billion, and the projections to 1990 show that the low estimate is $180 billion, the high estimate is $210 billion, if we continue on the present track without any changes.

The debt problem persists because we have not been able to effectively reduce or eliminate the annual Federal deficit. The congressional budget resolution may make progress in this direction, but it will not eliminate the deficit.

Final budget dimensions remain somewhat difficult to estimate, of course, because Congress is still deliberating major legislation, including the 1985 farm bill. But no matter what the final price tag, something must be done. One vehicle to accomplish this is the Gramm-Rudman-Hollings amendment, which establishes a new set of targets to eliminate the deficit by 1991.

More importantly, as illustrated in my second chart, it spells out the mechanism to help ensure that the job gets done. On the chart we illustrate that the Gramm-Rudman-Hollings amendment would take us down from a projected $180 billion deficit in fiscal year 1986 to zero in 1991, in $36 billion annual increments. The gap between that and the deficit line as suggested by the budget resolution are compared on the chart.

Every American would benefit from Gramm-Rudman-Hollings.

[The prepared statement of Mr. Thompson appears at the conclusion of the hearing.]

The **Chairman**. Mr. Thompson.

Mr. **Thompson**. Yes, Mr. Chairman?

The **Chairman**. Let me interrupt, please.

I say this very respectfully. We didn't invite you here to be for or against Gramm-Rudman. That's not our interest. Our interest is, should it become law, how you would implement it. So if you would kindly pass up your support or nonsupport or what it will or would not do, we know that. Our interest is how will the Department of Agriculture implement Gramm-Rudman, should it become law. When you get to that, then we will continue with the hearing.

Mr. **Thompson**. Well, my written testimony addresses the importance of getting the deficit down to agriculture because of the role, the important role, of the deficit in influencing the high interest rates and the strong dollar, and argues—and let me just summarize briefly.

The **Chairman**. We know that. We're not interested in that. We didn't invite you for that, respectfully, again. All we want from you is, if Gramm-Rudman becomes law, what are you going to do and how are you going to do it?

Mr. **Thompson**. Well, as you know, it's highly conjectural at this point, given that we have neither Gramm-Rudman-Hollings finalized in the conference committee, nor do we have a final outcome of the 1985 farm bill deliberations.

Now, I do have with me representatives from both the general counsel's office and our budget office, and we will do our best to respond to specific questions or to specific concerns you may have. But as I say, what we have to say will be conjectural, given the present status, which is changing day by day in the conference committee in terms of the various provisions of the Gramm-Rudman-Hollings.

But in our formal prepared testimony, our comments are generic on the impacts of the deficit and the importance of getting it down.

The **Chairman**. We know that. We've already done that in our committee.

Mr. **Thompson**. We will be pleased to——

The **Chairman**. Did you read our letter?

Mr. **Thompson**. I have seen no letter, sir.

The **Chairman**. Inviting you to come here?

Mr. **Thompson**. Your letter hasn't reached me yet. We got a telephone invitation Thursday afternoon.

The **Chairman**. Did they give you the contents of the letter?

Mr. **Thompson**. We have not—we have only had a telephone contact so far.

The **Chairman**. Well, I guess that's why I was thanking you for responding so promptly. But we will give you the letter after the fact. But what you heard from the committee—and I will read from the letter:

I shall appreciate your Department's testimony before the committee on how any such spending reductions in agricultural or nutrition programs would be implemented.

Mr. THOMPSON. Well, I apologize for——

The CHAIRMAN. Let me continue:

The Department witnesses should be prepared for technical questions from committee members to explore the ramifications of ministerial spending reductions on farm commodity, credit, crop insurance programs, research, education, conservation, nutrition, forestry, and rural development.

Those are the areas we want to get interested in. How the members vote on Gramm-Rudman, is up to each individual member, and we are not trying to persuade one way or another. Our interest is, have you made a study to now of Gramm-Rudman as it passed the Senate; how you would implement its provisions?

Mr. THOMPSON. Our budget office and our general counsel's office are studying it as it came out of the Senate. They have some notions about how we would proceed to implement it. But as I indicated before, it's highly conjectural at this point, given the literally day-by-day changes which are occurring in the conference committee.

The CHAIRMAN. We will have to go and vote. And it probably would be best if—oh, we may have two votes. That will give you time to rally around with your colleagues there and visit a little bit more about it because, really, I say this very sincerely, that you coming to tell us it's a good bill, that's up to the members to make that decision.

Mr. BEDELL. Would the chairman yield?

The CHAIRMAN. I yield.

Mr. BEDELL. Mr. Chairman, if they think it's a good bill, we ought to at least know, it seems to me, what the bill that they think is a good bill would do, how they would implement that bill which, as I understand it, is the bill that comes from the Senate. And I think our interest would be in knowing how they would implement the Senate bill. We're not concerned about what it's going to change or anything else. We would like to know from them how they would implement the bill as it comes from the Senate.

Mr. HUCKABY. Would the gentleman yield?

Mr. BEDELL. I yield.

Mr. HUCKABY. I thank the gentleman for yielding.

We would like to know such things as if you are faced with a cut of $4 billion from projections, do you get into the entitlements of target prices or do you take it all out of research, and these type things? This is what we need to know and have some knowledge of, if you are prepared to help us with that.

Mr. THOMPSON. With the gentlemen I have with me, we are fully prepared to attempt to respond to your questions, and we had anticipated that we would get into this in the question period.

The CHAIRMAN. Well, good. Let us go dispose of this vote. You all can counsel, and then we'll come back and we'll work with the questions and answers and see how we can help each other in the process.

[Recess taken.]

The CHAIRMAN. The committee will be in order.

We will proceed now with the questions and answers of the Department representatives, to the extent that they are able to answer. I just hope, Mr. Thompson and his associates, that if you don't have an answer, you will just tell us you don't have an answer. But to the extent that you have, we would appreciate some ideas as to how you would implement what we have before us now, which is the version that passed the Senate. Now, we know that it may change to some extent, but we need to have at least some semblance of how the Department would proceed.

Then we are going to go to questions. The Chair is not going to adhere to the rules, just as the members ask for recognition, we can go back and forth, if that's agreeable.

Mr. Jones.

Mr. JONES of Tennessee. Thank you very much, Mr. Chairman. I do appreciate the fact that you did direct our guest here today to answer our questions rather than to go into a long dissertation about Gramm-Rudman because we have heard that already.

Mr. Thompson, assuming that the conservation reserve program is enacted, would the long-term rental payment contracts be subject to sequestering, or would they be exempt from Gramm-Rudman just like Defense contracts will be?

Mr. THOMPSON. Mr. Jones, as we understand it, these would be previous years' contracts, and if a sequestering order was implemented, these contracts would be protected and there would be no cut in those payments, because these outlays were committed in a previous year.

Mr. JONES of Tennessee. Well, now, what do you mean by "previous years' contracts"? These are contracts that would be just taking place after the adoption and enactment of H.R. 2100.

Mr. THOMPSON. OK. Why don't I just quickly follow through a chart that I put up in anticipation that we might get into the chain of events that occurred in each year of the implementation of this budget procedure.

During each year, during the months of January and February, the President would be obligated to submit his budget to the Congress to achieve the Gramm-Rudman target for that year. During the period February to September, the Congress would proceed to enact its budget resolutions and whatever other legislation that it chooses to enact to achieve the Gramm-Rudman target.

Then during the period of September and October of that year, OMB and the CBO will both project future costs of those programs as they exist and will also project revenues of the Government and, in turn, project the deficit. And, if necessary, in the month of October if that deficit is exceeded by 5 or 7 percent in the first year, the President orders pro rata cuts across the board on those programs other than: interest on the national debt, which the Constitution obligates us to pay; Social Security; and contracts entered into in previous years.

OK. Now, in response to your request, I assume that all farmers will not get into the conservation reserve in the first year. Physically, I don't think it's possible for us to enroll 20-25-30 million acres of land in the first year. In fact, given the length of time into the current fiscal year that will have elapsed by the time the farm bill is done, we may be lucky to get more than 5 million acres signed up in the long-term conservation reserve the first year.

Once those contracts are entered into, let's say that it were necessary to have a Gramm-Rudman-Hollings sequestering order in October 1986, the payments that were obligated by the Federal Government under those contracts that were signed during the current fiscal year would be held safe, and there would be no cut in payment.

In the future, the time following that, the total authorization available for contracts would presumably have to be cut for contracts to be entered into after the date of the sequestering order.

Mr. **Jones** of Tennessee. As I understand what you said, that does include all programs except for the ones you mentioned: Social Security, the interest on the debt, and, you said other programs.

Mr. **Thompson**. That's right. We interpret that it would mean that cuts would be across the board on the same pro rata basis, that there would be no exceptions in the Department of Agriculture, that everybody would take a uniform cut.

Mr. **Glickman**. Would the gentleman yield on just that point?

Mr. **Jones** of Tennessee. I would be glad to yield, Dan.

Mr. **Glickman**. Are you saying that all farm programs would be cut, sequestered, and therefore cut across the board, and there would be no discretion within those programs at all if the sequestration order were maintained; that is, the target price program, the loan program, conservation reserve, food stamps, everything else?

Mr. **Thompson**. That's the way we're interpreting Gramm-Rudman-Hollings.

The Boren amendment, which was offered to the Gramm-Rudman-Hollings proposal, raises the question of how you equitably treat farmers who sign up for the program before a sequestering order was issued relative to farmers who would sign up after. As I read the language, the implication there is that once the program is started and anybody is signed up, there will be no reduction in payment or no reduction in obligations of the Government to any participants in that commodity program during that year, but the savings would have to be generated in the following year. Now, in practical terms, by October 15 or so, it's probably only wheat producers who will have signed up for programs. But there is specific language there that if anybody has entered into contracts, no producer of that commodity is going to have his or her payments cut later in the year as a result of the order.

Mr. **Jones** of Tennessee. Mr. Chairman, I want to be one of those who cooperate with the time observance, and I have other questions. I would like to have an opportunity at a later time.

The **Chairman**. Well, we will come around. I appreciate the gentleman's cooperation. There are not that many members that we can't make the rounds.

Mr. Weaver.

Mr. **Weaver**. Thank you, Mr. Chairman.

I should have waited for somebody to ask about the loan program—because that's not really an expenditure of money and how that would affect the Agriculture Committee—because my interest is in the Forest Service.

Mr. Secretary, does the administration support the Gramm-Rudman proposal?

Mr. **Thompson**. Yes, sir, we do.

Mr. **Weaver**. Has the President said within the last week that he wants to continue a 3 percent increase in military spending?

Mr. **Thompson**. I am not acquainted with that specific quotation.

Mr. **Weaver**. Has the President said at any time in the recent past that he wants a 3 percent increase in military spending, after Gramm-Rudman has passed the Senate?

Mr. **Thompson**. Well, in the Defense area you are out of my range of competence. But I do understand, from talking to OMB, that Defense, like everyone else except Social Security, interest on the national debt and contracts entered into in previous years, will uniformly take their pro rata cut across the board, including Defense, and because of Defense's participation in the overall budget, we would expect Defense to bear that proportionate cut.

Mr. **Weaver**. Well, you will forgive me if I don't believe it when the President says that he is supporting Gramm-Rudman only with the assurance that he can continue his 3 percent increase in military spending. And he said that.

Has the President also said that he just opposes any new tax increase?

Mr. **Thompson**. Yes, sir, he has.

Mr. **Weaver**. All right. So that means that these discretionary spending programs are going to bear the enormous brunt of any cuts if this passes. If the President will not cut Social Security, not have a tax increase, not cut military—as a matter of fact, military will go up—I just believe that my figures show in determining this that the Forest Service would have to be disbanded.

You're talking about, Mr. Thompson, around $200 million—excuse me, $200 million—$200 billion of discretion funds that cuts of $100-$150 billion are going to have to come out of in the next 2 years. And that would strike me that the Forest Service, being all discretionary, would be one of the agencies that would be cut to the bone.

Mr. **Thompson**. No, Congressman, the Defense budget is considered discretionary just as any other—part of the Federal budget for this purpose. The only part of the Defense budget which would be protected would be contracts entered into in previous years, just as those contracts in Agriculture that are entered into in previous years.

Mr. **Weaver**. Let's just assume that they are then; 50 percent of the Defense budget is offbounds. And you're telling me the President is going to allow—as was in the Washington Post the other day—that the Army be cut by one-third to one-half in its personnel because of these cuts. I can't believe it. So therefore, I have to figure what's going to happen to the Forest Service, and you're going to have to cut 50 percent on these discretionary figures.

Mr. **Thompson**. No, not the way we see the numbers, there's no——

Mr. **Weaver**. All right, tell me what you think would happen to the Forest Service, please, exactly.

Mr. **Thompson**. Well, for example, if we're obligated to make a $10 billion cut to meet the Gramm-Rudman-Hollings target——

Mr. **Weaver**. No, no, no.

Mr. **Thompson**. This means 2 percent pro rata cut across the board, Forest Service would take its 2 percent, deficiency payments would take their 2 percent, and on and on.

Mr. **Weaver**. $10 billion? We're talking about $100-$200 billion cuts that are coming down the pike.

Mr. **Thompson**. We're talking about phasing down from the present $180 billion deficit over 5 years at the rate of $36 billion a year to reach zero at the end of 5 years.

Mr. **Weaver**. I yield to the gentleman from Iowa.

Mr. **Bedell**. But the CBO baseline, according to your figures for 1988, is a $243 billion deficit. According to your figures, Gramm-Rudman would reduce that to $108 billion. That's $135 billion reduction from the baseline, is it not? The baseline is what we would normally spend under current programs. Isn't that a $135 billion reduction from where current programs would go at their current spending levels if we didn't make changes?

Mr. **Thompson**. You're assuming that Congress will make no cuts.

Mr. **Bedell**. No, we're not assuming anything.

Mr. **Thompson**. Relative to that baseline, your own budget resolution comes in significantly less than that.

Mr. **Bedell**. No, we're not assuming anything. What we're talking about is how much you'll have to cut from current programs as they're operating today. And current programs as they're operating today is $243 billion, according to your figures. Now, that, according to your figures, is how much we would spend on those programs as they operate today; is that not correct?

Mr. **Thompson**. According to CBO's figures, that's what we'd spend if we operated them accordingly as we are today, but not what the Congress of the United States agreed to in the budget resolution, which gives $143 billion.

Mr. **Bedell**. No, no, no, but that doesn't have anything to do with it. We're talking about what we will have to do compared to the current farm program as it operates today. And according to that, you're going to have to cut in 1988, $135 billion; in 1989 you're going to have to cut nearly $200 billion—$190-some billion—you're going to have to cut from where those programs would be today.

I think that's the point that Mr. Weaver was trying to make. We're not concerned about what the budget resolution or that sort of thing is doing. The question he is asking is what's going to happen to his forestry programs compared to the programs we have today under this program. And under this program, your own figures show that you've got $135 billion in 1988 and in 1989 you've got a $192 billion cut.

Mr. **Thompson**. If we proceed along the baseline continuing to do nothing different from what we're doing now, that's the kind of deficits we will be racking up, the kind of addition to the national debt we'll be adding. And I would emphasize that the sequestering order would only occur if the Congress were unable to come to an alternative set of program cuts in order to get the budget deficit down in line with the Gramm-Rudman amendment.

Mr. **Bedell**. Mr. Thompson, that's what Gramm-Rudman is all about. We assume that. Otherwise, Gramm-Rudman doesn't mean anything. We assume that there will be sequestering cuts, and we're talking about if those occur, what's going to happen.

Mr. **Thompson**. No, I don't see it at all that way. I would hope and pray that the sequestering cuts would not occur.

Mr. **Bedell**. My time is over, but I would hope you would answer questions from now on on the basis of what Gramm-Rudman is all about and that's sequestered funds.

Mr. **Thompson**. No, I frankly disagree, Congressman. Gramm-Rudman is all about balancing the budget, bringing the deficit down to zero in 5 years, in uniform increments, and in order to achieve that it will take program changes.

If Congress fails to—if and only if—Congress fails to enact program reductions that would achieve that baseline, then there would be a sequestering order.

But it is not our assumption that sequestering would be required every year. We would hope and pray that between the President and the Congress, we could come to agreements each year that would bring us down there without the uniform, arbitrary, across the board pro rata cuts.

But that's the fail-safe that finally will get us deficit reduction if all else has failed.

Mr. **Madigan**. Mr. Chairman.

The **Chairman**. Mr. Madigan is recognized.

Mr. **Madigan**. Mr. Thompson, I presume that you have come to talk about the agriculture function of the budget as it would be impacted upon by Gramm-Rudman. But it also seems clear to me that we can't really measure that unless we know to some degree what exactly would occur with regard to other functions in the budget, because the extent to which other functions in the budget would be impacted upon or not impacted upon increase or decrease the pressure on the agriculture function. Do you agree with that as a general statement?

Mr. **Thompson**. That's correct.

Mr. **Madigan**. My understanding is that interest on the debt is a given and that nobody contemplates that number changing in any way as a result of Gramm-Rudman.

Mr. **Thompson**. The Constitution mandates that we pay the interest on the national debt if we pay nothing else.

Mr. **Madigan**. And I understand that Social Security will not be subject to any consideration under Gramm-Rudman. Is that also correct?

Mr. **Thompson**. That's correct.

Mr. **Madigan**. And Medicare, as part of Social Security, would also be not subject to any consideration. Is that correct?

Mr. **Dewhurst**. I think Medicare is an indexed program under Gramm-Rudman. I think it is affected, but I don't want to claim I know a whole lot about Medicare.

Mr. **Thompson**. As I understand it, Medicare would be included in class I. The class I cuts include all programs with COLA except Social Security. Class II programs are all other controllable expenditures. As we understand it, Medicare is in class I. All COLA programs would be impacted.

Mr. MADIGAN. Well, we have a perspective reimbursement system now under Medicare based on diagnostically related groups under which we enter into agreements with hospitals to provide services on an annual basis for which they are prepaid. Would not those contracts put Medicare beyond the reach of Gramm-Rudman?

Mr. THOMPSON. You are really well outside of our area of competence to respond. I really think it would be purely conjectural on our part, and I don't think we should comment on that.

Mr. MADIGAN. Presuming, if I may, that it would be beyond our reach, there are four items, four functions in our budget, that represent about 75 percent of the total budget; and those are: interest on the debt, which I have mentioned; Social Security; Medicare; and the Defense function. And if those are totaled up in the current fiscal year they represent 75 to 76 percent of the total Federal budget.

With regard to the defense function, if contracts previously entered into would be sacrosanct so far as Gramm-Rudman would be concerned, then it would seem that the only savings that could be achieved in the defense budget would be those related to personnel costs.

My question to you would be, is an enlistment or a reenlistment contract between the military service and a member of that military service considered a contract for the purpose of consideration under Gramm-Rudman?

Mr. THOMPSON. I am not qualified to comment on that, sir.

Mr. MADIGAN. There is a possibility, though, that what we have is perhaps 75 percent of the budget not being subjected to any provisions under Gramm-Rudman, I am afraid, which does increase considerably, if my presumption is correct, whatever pressure would exist upon the remaining functions of the budget, agriculture included.

Now, I understand that Members of the House, considering what they are going to recommend to the rest of us with regard to Gramm-Rudman, are this day considering what low-income programs should be exempted from sequestering, which means that we would be going beyond 75 percent if we do exempt certain low-income programs, further increasing the pressure on the remaining functions, including agriculture.

So my question to you at this point, Mr. Thompson, is, Are you in favor of exempting agriculture programs from sequestering?

Mr. THOMPSON. No, sir. We support the concept of the Gramm-Rudman-Hollings proposal to get the deficit under control because we can do more for the well-being of farmers and their bottomline by getting deficits down. Deficit reduction will, in turn, get interest rates down, and lower exchange rates, which will reestablish export competitiveness.

Interest payments are the largest cost item in the farmers' cost structure: over $20 billion a year in total interest payments on $212 billion of farm debt. We can do more for farmers' bottomline by getting deficits moving downward than anything we can do in the farm bill.

So we feel that agriculture, like every other segment of the Federal budget, should bear part of the adjustment in getting deficits under control.

Mr. **Madigan**. Well, let me ask you this final question then, because I see the red light is on.

Some of the farmers in my district asked me this question, and because I am not an economist, I am just at a loss to provide them with an answer. But they say that they continue hearing all of us in Washington say that the debt and the deficit are causing these high interest rates, and they ask me if that is the case, why is it true that in 1980, when the deficit was considerably less and the debt was about half of what it is now, interest rates were 10 points higher than they are now? How come the debt has gone up, the deficits have gone up, and the interest rates have come down about 10 percentage points?

I am not able to answer that question. I wonder if you could give me an answer that I could give to them.

Mr. **Thompson**. Yes, we did have much higher interest rates, but we had vastly higher inflation rates at the same time. What matters are real interest rates, not nominal rates. Real interest rates are the market rate less the rate of inflation or the amount by which interest rates exceed the rate of inflation.

Mr. **Madigan**. Well, the prime rate in 1980, the prime rate was 21.5 percent. The inflation rate was 12.5 percent. The difference between the two was 9, subtracting 12.5 from 21.5. There is a difference of 9. The prime rate currently is about 11.5 percent. The inflation rate currently is about 3 to 3.5 percent. The difference between the two is 8 to 8.5. What is your point?

Mr. **Thompson**. We would have to look at the whole rate structure and the most critical concern is the more important long-term rates not short-term rates for borrowing.

I think we should look at the whole structure of interest rates and inflationary expectations—and by the way, today the long-term interest rates are substantially higher than the short-term interest rates. This seems to suggest that the market has built in an expectation of much more rapid future rates of inflation because they lack confidence in our ability to get deficits under control. To understand your observation, we'd have to look at the whole structure rather than just comparing two arbitrary levels, and also recognize that more factors than just the deficit determine interest rates.

Mr. **Madigan**. My time has expired. Thank you.

The **Chairman**. I thank the gentleman.

Mr. Huckaby.

Mr. **Huckaby**. Thank you, Mr. Chairman.

Mr. Thompson, if we get into the situation with the pro rata cuts and you take off Social Security and interest and the long-term defense contracts, what is your department's estimate of the Department of Agriculture's percentage share of the cuts that you would have to take?

Mr. **Thompson**. Let me defer to Stephen Dewhurst, from our Budget Office, who has been evaluating these numbers.

Mr. **Dewhurst**. Mr. Congressman, according to the information we have from the Congressional Budget Office, there is about $420 billion in the Federal budget which is classified as controllable spending and would be subjected to those pro rata reductions.

That means that, for the Department of Agriculture, if the Federal budget had to be reduced—I will give you two extremes—one of about, say, $10 billion on the low end, you're talking roughly about a 1-percent across-the-board cut.

Mr. HUCKABY. What percent?

Mr. DEWHURST. You're talking about a 1-percent cut across the board in USDA programs. If the need is, say, $75 billion has to be cut from the Federal deficit, the USDA's share of that is about 6.5 percent.

Mr. HUCKABY. Can you answer it the way I asked the question? What the percentage of agriculture expenditures of the Department of Agriculture is to the total pool that has to be cut?

Mr. DEWHURST. Well, our outlays are about $45 billion compared to a Governmentwide outlay, that's subject to the cut, of about 420. So we represent roughly 10 percent.

Mr. HUCKABY. Agriculture has to bear about 10 percent of the total cuts.

Mr. DEWHURST. Yes, sir.

Mr. HUCKABY. Does this include food stamps? I guess it does then, doesn't it?

Mr. DEWHURST. Yes, sir.

Mr. HUCKABY. Would entitlement programs like that cut 10 percent also if you had to take a 10-percent cut?

Mr. DEWHURST. Yes, sir. All of our programs at this point are not put in that first category of indexed programs, so all of our programs—food stamps, child nutrition, price supports, whatever—would all be subject to the same level of across-the-board cuts.

Mr. HUCKABY. And from year to year, if Congress had changed its priorities via the appropriations process, you would look to the amount of the most recent appropriation to cut proportionately?

Mr. DEWHURST. Yes, sir. As we read the Gramm-Rudman proposal, it's important to understand that the cuts are always made from the last level authorized by the Congress for programs, so that those priorities stay intact.

Mr. HUCKABY. One final question then. So we can basically assume that we are talking about a 10-percent cut for whatever the difference is if Congress falls short of reaching the $36 billion reduction in any year in the Department of Agriculture? Is this correct?

Mr. DEWHURST. Yes, sir. The reason we hesitate is because if the $400 billion figure is correct—and that's subject to some debate in the conference right now, as I understand it—then our share is about 10 percent. We change as that figure changes, of course.

Mr. HUCKABY. So that means the farmer's deficiency payment check would be 10 percent less, the food stamp allotment would be 10 percent less, et cetera?

Mr. DEWHURST. Yes, sir.

Mr. HUCKABY. Thank you, Mr. Chairman.

Mr. DEWHURST. Mr. Congressman, I am sorry, I misanswered your question. We share 10 percent of the cut, but the cut may be 1 percent or 5 percent.

Mr. EMERSON. Mr. Chairman.

The **Chairman**. The time of the gentleman has expired.

Mr. Emerson is recognized.

Mr. **Emerson**. Thank you, Mr. Chairman.

You know, one of my concerns in the ongoing budget debate is that everybody is trying to escape responsibility for where the ultimate decisions have to be made.

It seems to me as I have read this sectional analysis of House Joint Resolution 372, as amended by the Senate, that there is ample opportunity for those who are concerned that the Congress is going to be disadvantaged here, that there is ample opportunity for Congress to establish its priorities, to disagree with the President, and to thresh this thing out so that there could perhaps be some consensus.

Do you know, I cannot escape—I don't know how, if we are all concerned and I think everybody in the House is concerned, everybody in the Congress is concerned—how we're ever going to escape the fundamental underlying fact that no President of the United States ever has or ever will under our Constitution spend a doggone penny that hasn't been authorized and appropriated by the Congress.

Now, the President has a budget to submit. He is locked in by law to what a lot of that budget must be. He does not in and of himself have a great deal of discretion, because Congress makes the law. And it seems to me that this approach is one in which both the President and the Congress will have fully the opportunity to act, to participate, and certainly if we—and I am one of those who is concerned about what impact this may have on agriculture.

We will have the opportunity appropriately to put our oar in on that point and have our say. And if collectively we in the Congress think that agriculture is taking too much of a cut, we would have the opportunity to adjust priorities, would we not?

Mr. **Thompson**. That's absolutely correct. As illustrated on our chart here, the President will be obligated to submit a budget in January which would meet the Gramm-Rudman-Hollings target. The Congress has from then until October to come up with a set of alternative priorities. And if all else has failed, then and only then is the sequestering order issued in October.

Mr. **Emerson**. I think, just speaking from the perspective of my congressional district, that people are mainly concerned, they know we've got to have some cuts in order to get these deficits under control, but they're mainly concerned that we approach it fairly, that there will be an equal sharing of the burden. And I have not seen a better approach than this to ensure that that might come about.

I think this is imperfect. I think that there will be further extensive debate on it in the House and probably in the Senate. And we may not get where we want to get as fast as we're trying to get there, but absent any other approach or system for getting us where we need to be, and the public is demanding that we need to be other than where we are, I think that we should give this approach a fair shake.

Thank you.

Mr. **Glickman**. Mr. Chairman.

The **Chairman**. Mr. Glickman.

Mr. GLICKMAN. First of all, in a sense I want to share what Mr. Emerson just said. I think that we shouldn't be victims in approaching this Gramm-Rudman situation. Theoretically, we ought to be trying to move to this level of deficit reduction as Gramm-Rudman proposed.

My difference with the President is that I think we've got to have more revenues to protect the base system. And my fear is that this President will not agree to any revenues at all, which means that agriculture will be cut dramatically.

For example, and I ask you the first question, tomorrow we have witnesses from the Farm Credit System. They will outline the need for significant additional Federal upfront money in some form or another to help take care of the Farm Credit System.

Now, I am going to presume that that is going to take away some flexibility with respect to the agriculture budget for 1986. Am I correct, Mr. Thompson?

Go ahead, sir.

Mr. THOMPSON. Presumably, yes, if we put money into the Farm Credit System, it would count against other agricultural programs, speaking hypothetically.

Mr. GLICKMAN. You know, again I make this point that unless at some point we face this day of reckoning with revenues someplace, we are going to cut not just basic farm programs, we are going to cut the guts out of our ability to deal with any agricultural problem in this country whatsoever.

And, Mr. Jones, you are going to find soil conservation and everything cut 75, 80, 90 percent because there won't be any flexibility left as additional problems come up.

One of the concerns I have about Gramm-Rudman is that it doesn't give you a lot of flexibility to deal with outside crises or problems unless—unless—we're open enough to deal with the issue of additional revenues someplace in this Government.

I just thought I would make that point because Farm Credit is going to require a big investment by the Federal sector—back door, side door, or front door. And if we're arbitrarily restricted in how much we spend in the ag budget, we could find ourselves not being able to provide any help to the Farm Credit System and we could see land values precipitously dropping because of no kind of flexibility.

Now I would like to ask you another question; 1986 outlays reflect 1985 program costs. You have stated that if a contract was previously entered into, then basically contracts for that particular commodity would not be affected until the following year.

If, in fact, that's true and you need to make adjustments, would you be dealing with double adjustments the following year; that is, if you couldn't cut in wheat because the contracts were already entered into in 1986, then in 1987 would you be providing an equivalent of cuts of 1986 and 1987?

Mr. THOMPSON. Presumably, for that commodity the annual cycle would be approximately uniform, year in and year out, and so any cuts that would be called for the following year would be rolled into the following fiscal year. So 1985 cuts might be rolled into 1986—excuse me, fiscal year 1986 cuts would roll into 1987 and so on.

Mr. **Glickman**. So what you're saying is you wouldn't have double cuts then the following year, you would have a single cut?

Mr. **Thompson**. I can't conceive of a situation in which you would have a double cut.

Mr. **Glickman**. OK. Now let me get at the question of what actually is cut. If we had a sequestration order, if Congress itself were not able to deal with these issues and we were forced to cut 6 percent from the ag budget, hypothetically, are we talking about cutting 6 percent of the loan rate and 6 percent, so the loan goes from, let's say, $3 to $2.82, and 6 percent of the target price, which goes from $4.38 to $4.21? Is that what happens?

Mr. **Thompson**. Well, first take the deficiency payments. Deficiency payments would be the difference between target price and loan rate or the national average market price times the base yield for each farm.

Mr. **Glickman**. Yes?

Mr. **Thompson**. You've got three dimensions there, each one of which determines the total deficiency payment. So in principle, you could make your savings by cutting it all off the target price, or you could reduce the fraction of the base on which you paid. Or in principle you could raise the loan rate to reduce the total deficiency payment. But then you increase the likelihood of forfeitures to CCC.

Mr. **Glickman**. Now, wait a minute, this is very important, because what you're telling me is that you could completely change the farm program in order to come up with the savings that you would need.

That is, let's say I'm eligible for $10,000 in deficiency payments. I assume what you're telling me is there are three ways you could handle me if I needed to have a 6 percent cut hypothetically targeted to one person.

One, you could just say, "Glickman, you're going to get $10,000 minus 6 percent this year."

Two, you could say, "Glickman, we're going to raise your target prices or lower your target prices or raise or lower your loan rates to come up with computations to get you within that 6 percent cut." Is that correct?

Mr. **Thompson**. Well, if you've already signed your contract for your program this year, it basically means that we would probably adjust your programs the following years sufficiently to generate the equivalent saving. That's the way I read the Boren amendment language in the same bill.

Mr. **Glickman**. OK, now, wait a second. I want to find out, if I just may ask one more question. How are you going to adjust to get the savings? Are you saying that you have total flexibility in the sequestration order to raise or lower the loan rate or to lower the target price in order to get those savings?

Mr. **Thompson**. Well, let me emphasize as I did before that since both the farm bill and the Gramm-Rudman-Hollings amendment are in such a state of flux, you can't say for sure exactly what the outcome would be.

Mr. **Glickman**. Presume for a minute that we're talking right now——

Mr. **Thompson**. As I understand it right now——

Mr. **Bedell**. May I ask unanimous consent that the gentleman have an additional 2 minutes in order to complete his question?

The **Chairman**. Without objection.

Mr. **Thompson**. As I understand it right now, if we were to generate the requisite saving from deficiency payments—and deficiency payments are the biggest ticket item we have in the commodity programs—there are only three ways you can generate those savings in deficiency payments: lower target prices, lower the fraction of the base on which you pay, or raise the loan rate.

Now, if you raise the loan rate, then that has implications for your commodity loan program immediately, and increases the likelihood of forfeitures. It would also further reduce the possibility of exporting, so you'd compound your problems in the future. So let's remove from possibility the chance of lowering the loan rates, and basically say it's either reduce the target price or reduce the fraction of the base on which you'd make your payments.

Mr. **Emerson**. Would the gentleman yield?

Mr. **Glickman**. I would be glad to yield.

Mr. **Emerson**. Just for a question because I think this is relevant at this point.

Doesn't Congress have the opportunity after the sequestration order of the President to make changes to alter the priorities? I mean, we're not stuck with the President's sequestration order absolutely after it has been made. We have a further opportunity to adjust things within that order, according to our priorities.

Mr. **Thompson**. We just voted back here, and the consensus is that Congress has got between 14 and 30 days, depending on whether you're in a recession situation, to make those changes or, to make any other desired changes.

Mr. **Emerson**. I think that's spelled out on page 17 in the sectional analysis, if I am reading it correctly.

Mr. **Thompson**. I am sorry, I don't have the sectional analysis. I have the amendment as passed by the Senate, but not the sectional analysis.

Mr. **Emerson**. My point is, we're not stuck absolutely with the President's sequestration order after it has been made; we have a further opportunity to come back and adjust the priorities.

Mr. **Glickman**. Thank you, Mr. Chairman.

The **Chairman**. Mr. Thompson, let me clarify a statement you just made. We have the prior-year exemption if the contract is a prior year. You stated in answer to Mr. Glickman that if it fell under that exemption, the next year you would make up for the total amount? Did you mean that you would double in the following year?

Mr. **Thompson**. No; you've got to generate Agriculture's requisite share of the savings and as we understand the Boren language, that says that CCC savings would actually be generated in the following fiscal year because of the difficulty of having to cut across contracts.

Because of the annual crop cycle, if there were a sequestration order the following year, those savings would be rolled forward into the second year in the future. Do you see what I mean? So you would never be getting a doubling-up of the savings in any one year.

The CHAIRMAN. You would move it up one?

Mr. THOMPSON. That's how we understand the Boren language, and also the sense that we get from reading the floor statements that were made by Boren at the time that that amendment was offered.

The CHAIRMAN. Let me ask you something. The legislation says, "The President." Everything says, "The President shall." Have you, or to what extent do you know at this time would be the input from USDA as it relates to agriculture?

Mr. THOMPSON. Well, once the necessary cut was calculated, obviously each part of the executive branch of the Government would proceed to implement that requisite cut, say, 2 percent, 5 percent, or whatever.

The CHAIRMAN. No; prior to that. Prior to that. Have you had any meetings, to your knowledge, like with OMB or with the Security Council or whoever makes those decisions at the White House?

Mr. THOMPSON. Well, OMB obviously is intensely following this debate. Director Miller testified on the 17th over on the Senate side.

The CHAIRMAN. No; but have you had? You see, the legislation says, "The President." It doesn't say, "USDA." My question is, Where will the President get the figures related to agriculture, supposing that he does send a message to the Congress to sequester, and so forth? Does he get them from OMB or the National Security Council or Mrs. Reagan or USDA? To your knowledge, has there been any procedure established as of now?

Mr. THOMPSON. Well, obviously, Office of Management and Budget in the Executive Office of the President would have lead responsibility. But each year in the budget process, and we would assume also in this process, our budget people led by Mr. Dewhurst would be an intimate part of that process of implementing this. All parts of the administration would be involved.

The CHAIRMAN. Have you had any indication that this would be the case?

Mr. THOMPSON. Specifically, we've had no formal communication, but it would be so conjectural at this point that I don't know why we'd expect to, given that the amendment is still being discussed in the conference committee.

The CHAIRMAN. But that part is not going to be changed, the part that says, "The President shall." It's not going to say, "USDA," "Department of the Interior." It will continue saying, "The President."

So I guess your answer is, no, you have not had any procedural communication?

Mr. THOMPSON. No, nor would I expect to.

The CHAIRMAN. And you don't know if you will or will not have ability for input from USDA to the area that impacts in USDA unless the norm continues that you submit to OMB, and so forth?

Mr. THOMPSON. Well, we would fully expect to be participants, as we are now, in all budget matters. Our budget people are in intensive discussions with OMB every year in the budget cycle and in the midsession review which occurs in the summer, and we would expect they would be involved in this process.

The **Chairman**. But you lose all the time. And that's part of our concern.

Mr. **Madigan**. Would the gentleman yield?

The **Chairman**. Yes, I yield.

Mr. **Madigan**. Mr. Thompson, the Department people went through a great deal of work with the House committee as we were working on the farm bill, and I understand that you're now working with the other body. Before I went to vote, I wanted to ask your people how they liked the House committee now that they've been over on the other side? [Laughter.]

Mr. **Thompson**. I was working over on the Senate side on markup all the while my colleagues were over here with you.

Mr. **Madigan**. So we're not going to answer the question?

Mr. **Thompson**. I'm not going to. [Laughter.]

The **Chairman**. I don't know how they feel about it, but every time I see Mr. Goldberg, he hugs and kisses me. [Laughter.]

Counsel, before I leave, let me leave you with a question, and then we will come back.

Should the Gramm-Rudman become law prior to the enactment of the farm legislation, what would be the technical process? Does the Gramm-Rudman have allowance or does it provide for subsequent laws that may come into play after its adoption?

You mull that over, and we will be back after the vote.

[Recess taken.]

The **Chairman**. The committee will be in order.

Mr. Kelly, you have a consensus reply?

Mr. **Kelly**. I think we do, Mr. Chairman.

I think as much as we can say is that Gramm-Rudman-Hollings, as presently drafted and being considered by the conferees, is intended to put in place a procedure under which the Congress each year would reconcile spending authority and appropriations on the one hand against revenues on the other. The Congress first, and the executive branch second, would have an opportunity to make sure that the deficit did not exceed the targeted level.

Your specific question is, If Gramm-Rudman passes today or tomorrow and a new 1985 farm bill is enacted thereafter, what is the effect on enactment of the farm bill. I think that the only thing that we can fairly say is that Gramm-Rudman does not proscribe the adoption of new authorizing legislation. It does establish a process under which new obligation authority or new spending authority is not to be enacted by the Congress once a deficit level has been determined, if the effect of that is to create a deficit which will exceed the target level.

It's very unclear how that would be applied in the first year. It's very unclear for a number of reasons. Most of the appropriations measures have not been enacted. The Congress has not had an opportunity to enact a reconciliation measure. It's almost impossible, therefore, to determine how it would apply this year.

The **Chairman**. I guess that's that then. I would accept that interpretation.

One further question: As I read the process—and you have the months and when things need to be done, and so on—it deals solely with the budget process, as I read the legislation, unrelated to specific legislation but to functions as related to the budget, right? Is that how you read it?

Mr. **Kelly**. Yes, sir.

The **Chairman**. But do you see—truthfully, let me say that I don't find it—but do you see any caveat that would exempt legislation per se beyond which you would not break existing contractual obligations, but whether we have the 1949 act, permanent law, or the 1985 act, do you see any difference as to what law is in place or what program is in place as to the functions in relation to the budget?

Mr. **Kelly**. Only to the extent, Mr. Chairman, that the programs authorized by the 1949 act or the programs to be authorized by the new 1985 farm bill over the next 4 years may vary, will likely vary, in terms of the amount of spending authority or obligational authority involved.

But, except for that, no, I don't believe the process anticipated by the Gramm-Rudman amendment would apply any differently.

The **Chairman**. Now this is purely hypothetical, and you don't have to answer it if you don't want to. But speak as counsel for the Department: Were we to enact a law that said it would exempt it from the provisions of Gramm-Rudman, what would be the effect, the legal effect, should it become law?

Mr. **Kelly**. Well, Mr. Chairman, if Gramm-Rudman were enacted initially and then the 1985 farm bill were enacted and some or all of the programs authorized in that measure were by law exempted, as Social Security would be exempted under the Gramm-Rudman language itself from application of the Gramm-Rudman reconciliation procedures, then I would imagine that exemption would exist on its face and that the cuts across the board in the second category, the pro rata cuts, would not apply to the agricultural programs and the other USDA programs covered in that bill.

The **Chairman**. Thank you very much.

Are there further questions? Let's come back to Mr. Jones.

Mr. **Jones** of Tennessee. Thank you, Mr. Chairman.

How are the loan programs that are statutorily excluded from the budget, such as the REA loan programs, treated under Gramm-Rudman?

Mr. **Dewhurst**. So far as we can tell, Gramm-Rudman makes no particular provision for the off-budget programs, and, therefore, they would appear to be subject to reduction just like all other Federal programs.

Mr. **Jones** of Tennessee. So there are some programs in the agriculture budget that would be excluded in that case, such as REA?

Mr. **Dewhurst**. They would be included in the reductions. I don't know of any provision in Gramm-Rudman that exempts REA or the various Farmers Home programs from the reductions under the Gramm-Rudman amendment.

Mr. **Jones** of Tennessee. Then exactly what did you say?

Mr. **Dewhurst**. That's what I said. I don't find any provision in the Gramm-Rudman amendment that exempts off-budget Federal programs such as REA.

Mr. **Jones** of Tennessee. And that would include the previous REA loans that have been made?

Mr. DEWHURST. No, I'm sorry. If a loan has been entered under a contract in a previous year, it's exempted from the reduction. New loans, whether they be on-budget or off-budget, are subject to the reductions, loans that would be entered after the reductions go into effect.

Mr. JONES of Tennessee. Well, the Gramm-Rudman proposal does not seem to distinguish between the loans for capital improvements which are repaid to the Government, and ordinary Government expenditures. At least that's what I've been able to get out of it.

In other words, would FmHA farm loan programs or rural telephone bank loans be treated any differently from the deficiency payments or food stamps that we've talked about previously here?

Mr. DEWHURST. No, sir; they would not be treated differently.

Mr. JONES of Tennessee. They would be treated the same?

Mr. DEWHURST. Yes, sir.

Mr. JONES of Tennessee. The Appropriations Committee sets minimum and maximum lending levels for loans administered by REA. Would sequestering apply to the minimum levels that are set by Congress or the maximum, and then what determines which level will be affected?

Mr. DEWHURST. In all honesty, I just have not thought that one through, Mr. Congressman. There would be a reduction in those loan levels. The executive branch, of course, has tended to budget for the lower of the range numbers in its proposal. So, in honesty, I'd have to tell you that I would think the reduction would come off the lower number.

Mr. JONES of Tennessee. You think but you're not sure?

Mr. DEWHURST. Yes, sir.

Mr. JONES of Tennessee. You think it would be the lower number?

Mr. DEWHURST. Yes, sir.

Mr. JONES of Tennessee. Would the REA loan program be subject to sequestering under Gramm-Rudman?

Mr. DEWHURST. Yes, sir; so far as I can tell, it would be.

Mr. JONES of Tennessee. Then if the REA loan programs are subject to sequestering, how would current loans be affected?

Mr. THOMPSON. In terms of any existing contracts, they would be untouched by the sequestering action.

Mr. JONES of Tennessee. Well, I wanted that clear. I didn't exactly get that in the first question that I asked. Thank you very much.

The CHAIRMAN. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

The first question I want to ask is on page 5 of your statement to us. You indicate that the proposals in Congress are overbudget.

Mr. THOMPSON. Yes, sir.

Mr. STENHOLM. Now on what basis do you make that? When we passed the farm bill from the House, we met CBO guidelines in this committee and from the House. According to CBO, we were within budget. Is your $50 billion based on the same January baseline figures that we've used for budget purposes?

Mr. THOMPSON. No, sir. Our cost-out is based on the October 11 crop report which we think most correctly reflects the cost of the bill as it was passed by the House, and that's the baseline on which the President will decide whether it meets the budget mark that was passed in the budget resolution in July.

Mr. STENHOLM. Then why should the Congress even bother to go through the budget process under Gramm-Rudman if we're not going to know what the baseline that we're going to work from is until October of every year?

Mr. THOMPSON. Well, both the outlay projections and the receipts projections will be updated in September——

Mr. STENHOLM. The point is, why should this committee take all of your time and everyone else's time attempting to write a farm bill and to stay within the budget process that is clearly implied in Gramm-Rudman—why should we even bother if we're going to have to come in and be subjected to an October baseline reading in regard to our budget proposal?

Mr. THOMPSON. Clearly, the October baseline is a much more adequate measure of the expected outlays than the January projection.

Mr. STENHOLM. I understand, and I don't disagree with that at all. My question is, Why should this committee or any other committee of the House spend all of the time that we do with January baselines, because obviously you can't have an October baseline in time to have a budget on May the 15th?

Mr. THOMPSON. Well, I think agriculture is probably the budget function which is most subject to forecasting or prediction problems. Just think back to what happened this year. In January we assumed an historically normal participation rate in the feed grains program of 50 percent. We expected normal weather conditions, and we had a set of export projections that seemed reasonable. After January, we had 71 percent of the corngrowers signup for the program instead of 50 percent, which added more than $2 billion to the cost of the program.

Mr. STENHOLM. I understand that. Very, very well I understand that. But what I'm trying to get at is, Why should we even do anything with regard to the budget if we've got to wait until the final information is here and exact? I think this point is very critical to this whole issue of where we're going to be in regard to budgeting for agricultural purposes.

I mean, my point is: I think it's grossly misleading and extremely unfair to continue to bandy about $50 billion numbers, because this committee right here, we had to operate under instructions of the law of the United States, which said—the conference between the House and the Senate gave us $34.8 billion to work with. When we were working on this, we didn't have access to October baseline because we had to start in April and May and June. Yet, now your information out to the general public is that we have grossly failed in regard to budget. I think that's tremendously misleading.

Mr. THOMPSON. I understand your frustration, Congressman. By the same token, I think any time we are doing this kind of budget calculation for farm programs, we owe you a range estimate. If we give you a range and are evasive on giving you a point estimate, you tell us, "We've got to have a point estimate because that's what we're required to meet in the budget."

But, frankly, in agricultural programs we can't do better than a range, and we mislead you if we give you a point estimate because we can't do better than that.

Mr. STENHOLM. I understand that, but I think it's very critical to the entire budgeting process that we agree on a baseline and then stick with it, admitting that it's going to change every week.

Mr. THOMPSON. OK, but the budget process which is defined by Gramm-Rudman-Hollings would start with the January baseline, but there would be an update on both the revenue and cost projections in September and October. Both sides would be revised then, and this will cause problems in agriculture. Sometimes it will be higher; other times it will be lower.

Mr. STENHOLM. But the revisions in October, will those revisions take into consideration the January baseline for budget purposes or are they going to be a moving target that we have to meet?

Mr. THOMPSON. I assume it's the moving target. Would you interpret it the same, Steve?

Mr. DEWHURST. Yes, I assume it would be the latest current estimate.

Mr. STENHOLM. Again, then, I have to ask, Why should this committee spend all of the time that we've had in trying to structure a program to meet those guidelines when those guidelines are going to be constantly changing? How can we possibly do our work to satisfy you?

Mr. THOMPSON. But you could recognize the possibility that the outlays would continue to increase and undershoot spending rather than aiming to hit it exactly.

Mr. STENHOLM. My time has expired, Mr. Chairman. I would like to ask again, but I'll defer to other members.

The CHAIRMAN. We'll rotate.

Mr. Bedell.

Mr. BEDELL. Thank you, Mr. Chairman.

I'd like to follow up a little on the questions of my colleague from Texas.

If that were to happen under Gramm-Rudman, and indeed the cost figures came in at the later date significantly higher, then does that reduction have to be made in the agriculture function or does that mean that you simply have to reduce the total by that amount, so that we would have a reduction across the board of 2 percent, or whatever it is?

Mr. THOMPSON. The latter, Congressman. In fact, in this case, if agriculture experienced a substantial increase in outlays from the January to October or to September projections, the cut that would be mandated under the sequestering order would spread agriculture's increase across all the other agencies, if they had increased costs less than agriculture had. So in this sense, agriculture could come out on the positive end through the sequestering process, because other agencies would bear the cost of its increases in program.

Mr. BEDELL. So we pass a budget early in the year in which we project meeting a cost of $35 billion, as happened. Then the figures come in and, instead of $35 billion, it's $50 or $65 billion, as you have estimated in your computations. What happens, then, the next year as the budget is prepared?

Mr. Thompson. Well, if a sequestering order is made, that increase in agricultural programs will be calculated into the constant percentage to be applied across the board. So if it's 2 percent across the board, agriculture would have to find the 2 percent out of its programs across the board. For those programs which can be cut now because they're not under previous years' contracts, the cuts will go ahead and be made. For those programs for which there are previous year contracts, the cuts would be reflected in the following fiscal year's program.

Mr. Bedell. Now you said that the loan programs, for example, the crop loans——

Mr. Thompson. Yes.

Mr. Bedell. For soybeans or wheat or corn, that those are included in the budget, also, $10 to $12 billion per year as a projection. If, indeed, you come along at the fall of the year, as you do in October, and again you estimate that we've overshot, how are you going to lower the cost there? Are you going to lower loan rates, because if you do, then you increase your deficiency payments, or are you going to have to lower both, or are you going to limit how much a person can put into loan? What would they do in a sequestering order such as that in order to reduce the costs of the CCC outlays which are primarily dependent upon the weather and upon how big a crop you have?

Mr. Thompson. You have identified probably the single most difficult part of the whole structure of farm programs—to figure out how we'd implement Gramm-Rudman. I think on deficiency payments we have a fairly clear idea. You could meet the target either through lowering target prices or reducing the percent of the base on which you made payments. But the price support loans, the loan rates, we're, quite candidly, still trying to figure out how we would implement that to carry out a Gramm-Rudman-Hollings sequestering order.

Mr. Bedell. The obvious question is, How can you be in favor of something that you don't know how the devil you'd implement?

Mr. Thompson. Well, Congressman, remember the context in which I said we strongly favor it. I'll repeat: the single most important thing we could do for agriculture today is get the deficit under control.

Mr. Bedell. Oh, I've heard that. Oh, yes, but what it is, you're saying that you support a program you don't know how you're going to implement because you think it's so important to get the deficit under control, but you don't know how the devil you'll ever implement it.

Mr. Thompson. We're working on it, Congressman, but we haven't concluded exactly how we would implement loan——

Mr. Bedell. Several of our bills have some embargo protection in them that says that, in case of an embargo, we raise target prices, and so on. I presume Gramm-Rudman just throws that out the window, then, doesn't it? You couldn't do that under Gramm-Rudman; is that correct?

Mr. Thompson. I would assume so, because that would imply larger outlays. If you found offsetting cuts elsewhere in the process——

Mr. **Bedell.** This doesn't say that. It says this is what happens if you do that.

Finally, in regard to the Wheat Program, the Secretary announces that in July, as I understand it, for the next year. He can have the signup period any time he wants to. Now my understanding is, under what you've said, if he had the signup prior to the October deadline, then that would be a contract that would be in effect and those people who had signed up would still not get the lower target prices or lower loan rates, or whatever it might be, for wheat; is that correct?

Mr. **Thompson.** As we understand it, that would be the case. Clearly, most people—all growers of winter wheat under a normal year would already have entered into their contracts by then.

Mr. **Bedell.** So the people that grow corn or soybeans would probably be stuck with lower support prices and lower payments from the Government, but those who grow wheat would not be; is that correct?

Mr. **Thompson.** That's likely to be the case, although there is some question that has been raised about whether, if anybody, any producer of any commodity has already signed up, whether all producers of all commodities ought to be treated that way in which the cuts would be rolled into the following year. That's something we're really going to have to take a careful look at and decide, but if you read the proposed amendment literally, I think—or at least I interpret it to say that, if no one has entered into contracts at the time the sequestering order is made, then you could go ahead and make the cuts for that program.

Mr. **Bedell.** But that's not the question. The question is, If the wheat people have had an opportunity to signup and some of them have signed up, then are the others precluded from getting that same protection or do the other commodities get similar protection?

Mr. **Thompson.** We just don't know for sure yet, Congressman. It could go either way. We could either delay all program cuts to the following year or we might proceed with those for a commodity for which no one has signed up yet.

Mr. **Bedell.** I know my time is up, but, Mr. Chairman, they're asking us to vote on something that we don't know what would happen. We don't know whether it would, according to what you tell me, we don't know when we vote whether that means that my corn farmers are going to have to take lower support prices or whether they're not going to have to take lower support prices; is that correct? If so, how the devil do you expect us to vote without knowing what we're doing?

Mr. **Thompson.** Well, as I interpret it, there's a greater good of getting the overall budget deficit under control, that will do more for farmers than anything we're going to do in the farm bill.

Mr. **Bedell.** I don't want to prolong it, but what you're saying is, it's so important that, even though we don't know what we are doing, we ought to vote for it. You know, that's fine if that's what you believe, but some of us in the Congress think we ought to know what we're doing before we vote for or against something.

Thank you, Mr. Chairman.

Mr. THOMPSON. Well, we put such high priority on deficit reduction that we would encourage you to vote for it.

The CHAIRMAN. Well, Mr. Thompson, those are your personal views, because when you say "we," if you're speaking for the administration, why didn't they send a balanced budget to begin with? That's the bottomline.

Mr. English, do you have any questions?

Mr. ENGLISH. Just more of a comment than anything, Mr. Chairman, and kind of a followup to what Mr. Bedell was talking about.

I noticed that the Director of the Office of Management and Budget, Mr. Miller, appeared on ABC's "This Week With David Brinkley," and George Will on that show asked a question and I'll give that question, and I'm quoting:

> Let's take the farm programs. What happens?

Mr. Miller responded, and I quote:

> Well, the CCC program, the biggest expenditure program, would be uncontrollable in the first year. But subsequent years, the contracts would be written in such a way that, if there were sequestering, that those target prices would be lowered by the same amount.

Do you agree with that, Mr. Thompson?

Mr. THOMPSON. I indicated that, as we interpret it, you can cut deficiency payments either by lowering target prices or reducing the fraction of the base on which you pay, and we're looking at both alternatives. Clearly, lowering target prices is one of the two ways it can be done.

Mr. ENGLISH. Well, if I remember correctly, at least since I've been here in Congress, it seems like the Office of Management and Budget has a much bigger say in it than you all do. Isn't that where you get your orders—from the Office of Management and Budget?

Mr. THOMPSON. We discuss this kind of thing with the Office of Management and Budget and come up with a consensus. They don't feel that they have all the answers, nor do we at this point.

Mr. ENGLISH. In other words, that's where you get your orders?

Mr. THOMPSON. I did not say that. I say we look at this together.

Mr. ENGLISH. Tell me a decision that the Office of Management and Budget has made on which you've disagreed and on which you've won. Do you know of any? I don't know of a single case.

Mr. THOMPSON. I think that's an unjust characterization of the environment.

Mr. ENGLISH. Well, accurate though.

Mr. THOMPSON. No; we have a very good working relationship with the OMB people at this point, and I think that's an unjust characterization of the environment in which we operate.

The CHAIRMAN. Would the gentleman yield?

Mr. ENGLISH. I'd be happy to yield, Mr. Chairman.

The CHAIRMAN. No more unjust than your saying neither the House nor the Senate has produced a bill which would fall within the fiscal constraints established in the binding budget resolution, because that's technically incorrect, because we did. But now you come and say, "Well, the October . . . ." So that's no more unjust than what you throw at us. You never win with OBM, anyway; that's a fact.

Mr. English, thank you.

Mr. **English**. Well, I think that's certainly a correct observation, Mr. Chairman, and I appreciate it.

I don't guess it does a whole lot of good to sit around and argue about it; we all know it's a fact. Whether you want to fess up and admit the fact, well, that's another matter, but that's the reality of the world that you live in.

I guess the thing that most people are looking for, at least my constituents are looking for--they're willing to do their fair share in making cuts in the budget. My farmers are willing to do their fair share, and even under the difficult circumstances that they find themselves, to make sacrifices that would reduce the budget deficit. They feel like it's that important.

I've got to say that, given the financial conditions of my farmers, I think that's going a very long way. I think that's an admirable quality.

The question that I've got in my mind is, while you're making your interpretation, and the Director of the Office of Management and Budget is making his interpretation, and everybody else is going to be making, goodness knows, what kind of interpretation, can you assure those farmers that whatever interpretation we finally end up with, whoever it is—whether it's OMB's, yours, or somebody else's that in fact they'll be treated fairly? And, I guess all these interpretations will be made within the administration; it isn't going to be Congress; the Congress isn't going to make any of these interpretations; that's just going to be you all.

Would you be willing to resign your job if my farmers are not treated fairly? Would you be willing to make that pledge? That's what they're, in effect, doing, many of them. They're saying, "I'm going to go the last mile. I'm going to give up this much more income. It puts me at that much greater risk. It makes it a very good chance I'm going out of business."

Are you willing to put your job on the line the same way that they're putting their job on the line, and assure—and saying, "If you're not treated fairly, I believe this is so important I'm willing to give up my job for it"?

Mr. **Thompson**. The criterion for fairness, which is defined in the Gramm-Rudman-Hollings bill, is equitable or equal percentage cuts across the board.

Mr. **English**. Yes; but you're saying, "Here"—we've already seen you're saying one thing and the Office of Management and Budget is saying another. You don't have any idea what the interpretation is going to be. You know as well as I do that it's going to be the final interpretation of some rulemaker buried in some building somewhere here in Washington, DC. He will remain anonymous. We'll never hear from him and we'll never know his name. He's the one that's going to finally decide whether or not justice will be done, but he's your responsibility. He's under your authority.

Now are you willing to tell us that you're going to be keeping a close eye on that man, and if our farmers are not treated fairly, that you're willing to sacrifice your job; you're willing to resign in protest of the unfair treatment of American farmers under Gramm-Rudman?

Mr. **Thompson**. I can assure you that we can—that we will be diligent in ensuring that, if the day comes when we have a sequestering order, that there will be uniform, equal percentage cuts in all programs across the board, and that we will work to the best of our ability to do it.

But let me assure you that the Congress has the opportunity in that February-to-September period to come up with an alternative which you would view as more fair than a uniform, across-the-board, same-percentage cut; and, also, the CBO, who works for you and not for us, is one of the two actors in coming up with these projections of revenue and of receipts in September. If CBO and OMB don't agree, the law says they should split the difference on their projections.

Mr. **English**. Mr. Thompson, you and I both know what you're talking about is the big picture. We're talking about billions and billions and billions of dollars. That's what we're talking about. It's a big, grandiose, landscape picture. What I'm talking about is that one little old farmer down there in the Sixth District of Oklahoma who wants to do his part to bring down the budget deficit, and he is willing to take some of those dollars that he really doesn't have and put them in the pot, and he's doing it on trust. Now that fellow down there, whether or not he gets treated fairly, it isn't going to be CBO and all these other folks getting into it. It's going to be you folks over at the Department of Agriculture, and it's going to be that fellow that's under you, over which you have the responsibility, that's going to be writing the rules and regulations—and a little wiggle of the pen here and there is going to decide whether or not that farmer is going to live or die. That's where it's going to come down.

The manner in which you interpret these mandates from on high, that's where it's going to be decided, and you're the one who has that responsibility. The question that I'm putting to you is, Are you willing to assure that farmer who is willing to make that sacrifice that he is going to be treated fairly, and, by golly, you're going to put your job on the line to give that kind of assurance?

Mr. **Thompson**. OK, you give me your definition of "fairness," and I'll assure you that we'll proceed to carry it out.

Mr. **English**. All right—that the particular programs that he falls under will not be reduced any more percentagewise than any other program anywhere else in the Federal Government. Will you give him that assurance?

Mr. **Thompson**. The Senate bill, as it was passed, exempts Social Security and it exempts interest on the national debt. Now you just leave those out——

Mr. **English**. OK, I'll give you those. I'll give you those two exemptions. Now beyond that——

Mr. **Thompson**. OK. It also exempts contracts entered into in previous years.

Mr. **English**. Oh. What else does it exempt?

Mr. **Thompson**. Those are the only three categories I know of to this point.

Mr. **English**. OK, we'll give you those. We'll give you those three categories. Are you willing to put your job on the line with those three exemptions?

Mr. THOMPSON. OK, uniform, across-the-board, same constant percent cuts—if that's your criterion of fairness, yes, we'll——

Mr. ENGLISH. Not "we'll;" "me—I."

Mr. THOMPSON. I'll tell my people to do it that way.

Mr. ENGLISH. OK. And will you assure that farmer, then, that he will not bear any greater percentage reduction in his program than anybody else in the Government with the exception of those exemptions that you made?

Mr. THOMPSON. As long as no other exemptions are added between now and the time the thing is implemented.

Mr. ENGLISH. You'll put your job on the line for them?

Mr. THOMPSON. We serve to carry out—we serve——

Mr. ENGLISH. Not "we;" "me." No; you're the man.

Mr. THOMPSON. OK, I, as all other Presidential appointees, serve to carry out the law of the land. You write the laws; we'll carry it out.

Mr. ENGLISH. OK. If my farmer out there ends up with a little more percentage cut than anybody else, you're going to resign your job.

Right? Yes or no?

Mr. THOMPSON. We'll do our best to carry it out.

Mr. ENGLISH. Yes; or no? [Laughter.]

Mr. THOMPSON. Yes; I'll give the orders.

Mr. ENGLISH. OK. Thank you, Mr. Chairman.

Yes, you'll give orders or, yes, you agree?

You agree to resign if he gets cut any more? [Laughter.]

Mr. THOMPSON. I'll attempt to carry out the law of the land obviously.

Mr. ENGLISH. Well, if you don't do it, I'll see you over at my subcommittee and then we'll talk about your job.

Mr. THOMPSON. All right; fine. [Laughter.]

Mr. ENGLISH. Thank you very much, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Mr. Thompson, there's a lot more under one of the explanations I have here. You have exempt spending of—I don't know—30, 35 programs, as defined by the Senate staff, like Federal Housing Administration Fund, FDIC Corporation, some 30, 35—not only just Social Security. You have specific exemptions, 30 or 35 of them. Are you acquainted with that?

Mr. DEWHURST. Well, I have to assume that they're exempted because they involve spending under contract, which is exempted from the process.

The CHAIRMAN. So it's not just the Social Security and the interest on the debt, and so on, that's exempt?

Mr. THOMPSON. From what I understand, Social Security, interest on the national debt, and prior year contracts are the three specific exemptions from the process.

The CHAIRMAN. Well, this would not be prior year contracts: Federal Savings and Loan Insurance Corporation Fund, Federal Deposit Insurance Corporation.

I'm really upset at Mr. Gramm-Rudman-Hollings, and others, like they didn't exempt Federal Crop Insurance but exempted other insurance. It's as if they were just aiming at agriculture.

I know Senator Hollings is a friend of agriculture. I don't know about the other two.

Mr. Thompson. Mr. Chairman, we'll be glad to get you an answer on that, but none of us here are aware of any such list.

The Chairman. Outlays due to increase in program participation rates, group life insurance fund, veterans reopen life insurance fund, national service life insurance fund, loan guarantee revolving fund, salaries of judges.

Let me ask further: On the program, if you have looked into this, if you were to get the sequestration and you were to reduce the target price for that year, what would happen subsequently? Would it be restored to the original or is that a permanent reduction? Have you thought about that?

Mr. Thompson. As I understand it, it will be a reduction for 1 year only, and after that it would revert to whatever was written into the farm bill.

The Chairman. So it would revert, then, to the original? You would only do for——

Mr. Thompson. Wherever the bill would have put you that following year; yes, sir.

The Chairman. Now on the Federal Crop Insurance, where would your reduction—we have a subsidy, if you call it that, from appropriated funds, and then it acts like any other insurance company. Where would your reduction come from?

Mr. Dewhurst. Well, obviously, the administrative and operating expenses for crop insurance would be subject to the reduction. The money that the Government uses to pay claims on crop insurance, so far as we're concerned, would be a contractual arrangement and we'd have to meet those claims. You couldn't make an arbitrary reduction and not pay a legal contract.

The Congress provides, as you said, an amount of money each year to help pay the premiums for farmers. I suppose that would be subject to a sequester provision or procedure. That would lower the number of contracts the Government could afford to enter into.

The Chairman. Where would you stop under the caveat that you would not abolish a program? This is a very, very small, fragile, almost-in-trouble corporation or agency.

Mr. Thompson. Gramm-Rudman-Hollings specifically says that "Thou shalt not terminate any program."

The Chairman. But if the 2- or 3-percent cut there or the cutting of staff or salesmen—what would you do then?

Mr. Thompson. Obviously, we'd have to come up with the necessary percentage cuts across the board unless Congress came up with an alternative formula in advance, so that we didn't have to implement——

The Chairman. But if the cut goes beyond where the Federal Crop Insurance would be abolished, and then it says that you cannot abolish, what would you do—keep one person on the payroll?

Mr. Thompson. That's a fairly extreme hypothetical, but——

The Chairman. It's not that extreme. You're not dealing in that many millions of dollars.

Mr. Thompson. You, Mr. Chairman, identify, I think, what is a problem when you take an across-the-board cut. But, yet, if all else fails, that's what Gramm-Rudman-Hollings says we would do—make those necessary, across-the-board cuts—big programs, little programs, you name it. But that is the procedure, as we read the bill.

The CHAIRMAN. Now let me ask you what implications for equal treatment, as you say, as between contract and noncontract commodities—what happens there?

Mr. THOMPSON. Well, in a noncontract commodity such as dairy, presumably you could immediately implement a reduction in the support price of milk. You'd project the total outlays for the dairy price support program for the following year, apply the necessary percentage cut to those, and that would come off the support price of milk immediately. There's an illustration of a noncontract program. Those cuts could be implemented without any delay.

The CHAIRMAN. What happens, for instance, if the dairy program, these reductions occur in 1 year and the crop program reductions in another year? How do you——

Mr. THOMPSON. We would calculate the necessary——

The CHAIRMAN [continuing]. Give equality to that?

Mr. THOMPSON. We'd calculate the necessary cuts that each part of the overall commodity program would have to bear. Those that we couldn't make in 1 year, we'd have no recourse but to apply them in the following year.

You can say that's inequitable; that some people bear the cost earlier than others. But, as we read the amendment as it now states, that's the way it would be implemented.

The CHAIRMAN. You're bordering on what I asked previously: What if you have an order to sequester the following year? Do you double it?

Mr. THOMPSON. No; I don't see any reason why there would be any such doubling, because presumably, if the savings that were necessary one year would be carried into the following year, any savings that were necessary to be generated in that following year would be carried into the subsequent year, so you would never have a double accumulation of savings stacking up in the same year.

The CHAIRMAN. But you have to meet that annual obligation. Do you meet it, then, from some other source?

Mr. THOMPSON. As we understand the Boren amendment which defined this procedure for CCC programs, it would actually defer part of the necessary savings from a given year into the following year. So that means we really would not achieve that total savings in the year, but some of those savings would be carried over into the following one.

So you're correct——

The CHAIRMAN. Your testimony, when you say "we," the administration of President Reagan, and so forth—is that you would not double? You're speaking for the President now?

Mr. THOMPSON. That there would not be a doubling-up of savings in any given year? I don't see the case in which that would occur. Do you, Steve?

Mr. DEWHURST. No. The way the procedures in Gramm-Rudman work, I don't really see how that is possible, because each year—if you have a sequester, every year you have to have one of these pro rata——

The CHAIRMAN. Yes, but if you defer, you say, "Federal Crop Insurance, we're not going to cut you this year. We're going to do it next year."

Now that necessary 2 percent, let's say, where do you replace it from? Somebody's got to go more than 2 percent.

Mr. DEWHURST. Well, as Dr. Thompson said, you are short in that year. To the extent you exempt programs because they are protected by those kinds of contracts and you have to capture the savings in a succeeding year, you're going to be short in the first year of your savings target. You wouldn't double it up in the next year. You'd always be 1 year behind, in effect, in some programs.

The CHAIRMAN. But the resolution says "shall." Doesn't it say "shall" for every year?

Mr. THOMPSON. That's correct, but the Boren amendment to Gramm-Rudman-Hollings seems to imply that part of that savings would actually be deferred into the following fiscal year.

The CHAIRMAN. Now, again, I want to emphasize what Mr. English emphasized. We didn't bring you here, nor are we begging off to exempt agriculture or not to do our fair share, because as unfair as your testimony is, we bit the bullet here and we show the scars. We worked with what we had to. We cut the 7.9, and we were over—what was it—3. We had to come 11—11.8 we had to cut before we sent our letter to the Budget Committee, and we did. We did it. You and the President and all of the "we's" that are implied should be here congratulating us for doing our work and for biting the bullet and doing that, except this rhetoric of 50 billion. I'm tired of hearing, Jack Block and the President and Mr.—what's that fellow from the—Speakes or Spakes or what's his name?

Mr. THOMPSON. Speakes. [Laughter.]

The CHAIRMAN. He wouldn't know a farmer from a possum. [Laughter.]

But, yet, he uses this 50 billion, 50 billion, 50 billion rhetoric. You get tired.

So we're not begging off. We did it. We cut what we had to cut. How in the world anybody could come, in all honesty, and say, "Well, you didn't make the cuts from the July—you didn't make your cuts from October." We didn't have them. We didn't have an October projection for us to work on.

Now let me ask further: Have you had any meetings or has there been any consultation about appeal? If OMB says this figure and you say, "No, we don't agree with that," to whom would you appeal? What process—or have you touched that issue yet?

Mr. THOMPSON. We have not addressed the issue specifically related to Gramm-Rudman-Hollings, but there is a normal appeal process that's well structured that works all the way up through to a budget review board, which is chaired by the President. I see no reason why the normal budget review process would not apply in any case.

The CHAIRMAN. Your testimony is that, to the best of your belief, this normal budget appellate process would be followed under the so-called Gramm-Rudman, should it come to pass?

Mr. **Thompson**. Yes; to the extent that there's any discretion—and we interpret Gramm-Rudman-Hollings to mean that there would be a uniform, same percentage cut in all functions. That doesn't leave a great deal of discretion. But to the extent that there may be some discretion, the budget review board process exists.

The **Chairman**. Now let me ask you a question that may well be hypothetical, but, Counsel, the Farm Credit System is in trouble. Do you follow appropriated funds under Gramm-Rudman, the first question? Would you follow appropriated funds regardless of agency under Gramm-Rudman?

Mr. **Thompson**. Could you clarify the question, Mr. Chairman. I don't really understand. What do you mean by "follow"?

The **Chairman**. We appropriate $10 billion to the Farm Credit System of appropriated funds, which we have to provide in the budget. Would they, then, be subject to the equal reduction?

Mr. **Dewhurst**. Yes, sir; I presume so. It's listed in the items in the discretionary area of the budget. They are subject to the cut. So I would presume that that appropriation would be subject to the cut.

The **Chairman**. Now the same follows for Farmers Home, for example? The Farmers Home has their fund. It may need to be periodically replenished by appropriated funds. You would follow, then, into those funds?

Mr. **Thompson**. Yes, sir, all loan programs we would interpret as coming under the required cuts. So there would be a smaller pool of total resources authorized for lending, either for direct lending or for loan guarantees. Our consensus is that we would apply the cut to the authorized loan ceiling. So if there were $4 billion authorized for a certain loan program and you had to take a 2 percent cut, you'd knock the $4 billion down by the 2 percent, as your authorized ceiling on the level of activity on that loan program.

The **Chairman**. Is that how you would handle CCC, also?

Mr. **Thompson**. You've got noncontract programs in CCC. You've got contract programs. You've got deficiency payments which are direct payments. You've got loan activity. Which part of the CCC do you refer——

The **Chairman**. But you have a total that when you hit the ceiling, we have to appropriate to replenish.

Mr. **Thompson**. The CCC has a $25 billion line of credit at the U.S. Treasury, and then they have to come to the Hill each year to replenish the net realized losses of the Corporation.

The **Chairman**. Now that's technically unobligated, noncontractual, when we appropriate it to them?

Mr. **Thompson**. That's correct.

The **Chairman**. And then you would go and cut there?

Mr. **Thompson**. As we interpret Gramm-Rudman-Hollings, we would cut all programs by that same percentage which obligates CCC resources in the future, such as we pay deficiency payments out of CCC moneys. We would feel obligated to cut deficiency payments by that percentage in order to reduce the future necessity to come up for a replenishment to reimburse us for those deficiency payments that we've made.

The **Chairman**. What about administrative costs of the Department of Agriculture?

Mr. THOMPSON. Everything—the same uniform, across-the-board cut.

The CHAIRMAN. Your salary?

Mr. THOMPSON. The law—or the measure specifically precludes cutting salaries of individuals. It would apply to a number of individuals employed and would not reduce salaries of either the military, people in the military service, or Government employees. That is specifically mentioned in the amendment.

The CHAIRMAN. Specific salaries are excluded?

Mr. THOMPSON. That's right. You'd have to reduce the total salary bill, either through attrition or furloughing staff or whatever, but there would not be any salaries cut.

The CHAIRMAN. You might have struck a deal with Mr. English, but now he's going to still insist that you resign. [Laughter.]

Now you have the equity provisions. What would be the implication for those that choose not to participate in the next year crop programs as related to those who stay?

Is there any—have you all sat around the table—you, the Secretary, all the other Secretaries—and discussed the technical aspects of Gramm-Rudman?

Mr. THOMPSON. The Secretary was briefed last Thursday morning on the implications of Gramm-Rudman. We haven't had a full staff——

The CHAIRMAN. By whom?

Mr. THOMPSON. By both our staff and Bill Hoagland from the Senate Budget Committee. So we've had input from both the Hill and our own staff in terms of what it means, but we haven't sat around the table and had a full staff meeting discussion, if that's what you're asking.

The CHAIRMAN. Yes. Is there any indication that you would have or——

Mr. THOMPSON. Obviously, as soon as we——

The CHAIRMAN. Hopefully, before we get to vote on this thing?

Mr. THOMPSON. I'd say as soon as we know what we're going to have to implement, clearly we'll define the necessary procedures to implement it.

The CHAIRMAN. Now the Secretary has certain ability or authority for emergency disaster declarations by county, contiguous county. How will this be affected by Gramm-Rudman?

Mr. DEWHURST. The Congress usually provides money each year in the appropriations process for that in such sums as is necessary. In other words, it's an open ended appropriation.

I suppose, if we had a sequester provision, there would have to be a way to hold down on that program, although I'm not sure at this point how it would work. You simply could not have an open ended program and still hope to meet the targets in the Gramm-Rudman amendment.

The CHAIRMAN. Under the authority in appropriated funds, you would, nonetheless, go and sequester *x* amount?

Mr. DEWHURST. I do not see how there would be any choice other than to do that, Mr. Chairman.

The CHAIRMAN. That's another area of great concern now.

Authorized—Counsel, listen—authorized but not appropriated, does Gramm-Rudman give you the authority to reduce prior to appropriation?

Mr. KELLY. Mr. Chairman, Gramm-Rudman is drafted in such a way as to permit pro rata cuts in all discretionary spending authority. If in the annual appropriation act Congress appropriates such sums as may be necessary for disaster programs, then I think Mr. Dewhurst is correct—it's difficult to find a formula for applying the necessary percentage cuts to those open ended programs. But I agree that the intent of the sponsors of Gramm-Rudman would likely be to apply the cuts to those programs as well.

The CHAIRMAN. You're going to dive head on, but my question was: Authorized but not appropriated—a specific figure, $100 million authorized but not appropriated. Do you go to the authorized figure?

Mr. KELLY. I'm not sure—if there are expenditures authorized, Mr. Chairman, but no appropriation has been made, I'm not sure there's any obligational authority in the executive branch to make those expenditures. So I don't think there's a potential for violation of the budget target.

The CHAIRMAN. But it becomes a part of the budget, because in the budget we deal with budget authority and outlay?

Mr. KELLY. Yes, sir; and in the annual appropriation acts, as Mr. Dewhurst has suggested, there are on occasion appropriated such sums as may be necessary for certain purposes, including disaster programs. While that appropriation item has no dollar amount attached to it, it is, nonetheless, an appropriation authority to which, I suspect, Gramm-Rudman should be made to apply.

The CHAIRMAN. Now the followup question is: Appropriated but with a reservation, $100 million appropriated but not to be used until *x* criteria is met.

Mr. KELLY. Well, if *x* criteria are not to be met until some point in time during the fiscal year——

The CHAIRMAN. But the funds are appropriated and they're there.

Mr. KELLY. Well, Gramm-Rudman doesn't address the mere appropriation of funds; it addresses the authority to expend funds. So the mere appropriation of funds, with a reservation so that they are not available for expenditure until some condition precedent occurs, sort of anticipates that there may well be no occasion for expenditure of those funds, and, therefore, no need to reduce.

The CHAIRMAN. So your answer, then, is, no, that you would not if appropriated, but there is a caveat that it is not free to spend as of that time——

Mr. KELLY. No, Mr. Chairman, I would consider that those were in the discretionary funding category, and that, if and when they became available, then the appropriate percentage reduction should be applied to that $100 million in your example as well.

The CHAIRMAN. Would you, then, say that you could sequester subject to release later? You would sequester knowing that it would come to pass 6 months down the line?

Mr. KELLY. No, sir. I imagine that the $100 million appropriated, not to be available until something else occurred, was part of the overall obligational authority that exceeded the budget target.

Therefore, the sequester percentage, if there is one, for all discretionary spending programs would have to be applied evenly to those appropriated funds as to all others. I assume it would mean, if the sequester percentage were 2 percent, that you would have $98 million to spend for that activity rather than $100 million.

The CHAIRMAN. Would you follow the funding of programs that are related to grants to States or where would you make the cut, before it's sent to the State or would you make it at the State level?

Mr. KELLY. Do you mean formula programs, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. DEWHURST. You would apply the cut, I believe, to the total that the Congress has appropriated, and then you would allocate the remainder to the States in the normal way that you usually do it.

The CHAIRMAN. All of the formulas, land grant colleges, where would you make the cut?

Mr. KELLY. I think you would make the cut, Mr. Chairman, to the appropriated amounts before allocations to the States. The formula could still be utilized to divide the reduced amount among the several States.

The CHAIRMAN. But you would reduce on the total?

Mr. KELLY. Yes, sir.

Mr. THOMPSON. So the total would be reduced first and then the same percentage would come off each of the individual States' portion of that total.

The CHAIRMAN. Now what about long-term contractual, not previous year but long term. Two, three—we allow you $7 million spendable at $1 million a year. How would you go about that?

Mr. DEWHURST. Well, as an example, the Great Plains Conservation Program where we entered 10-year contracts with farmers, and so we'll enter in the normal course of business a contract that's worth so much money over 10 years, and that entire amount is budget authority in the first year, although the money only gets outlaid over the 10 years. That budget authority would be subject to the pro rata cut, just like any other budget authority, and so we would enter 2 percent less new contracts, or whatever the figure might come out to be.

The CHAIRMAN. So you would reduce the total, regardless of the contracts in existence, which in effect would mean that you would go reduce individual contracts, because the money is not going to be there?

Mr. DEWHURST. No, you would have fewer contracts. You would reduce the total budget for the program. The Soil Conservation Service and the ASCS would still have to work with the land donor and they'd put a value on the contract. You wouldn't arbitrarily reduce the value of the contract. You'd just have less money to enter contracts, so you'd enter fewer contracts.

The CHAIRMAN. But my question was about a long-term contract, because somehow this Gramm-Rudman seems to define only previous-year contracts, somehow I get the feeling, not long-term contracts.

Mr. THOMPSON. Any previously entered into contract which has the monetary compensation specified at the time the contract is entered into could not be touched, as I understand.

Mr. DEWHURST. As I understand it, the Government, of course, has some long-term contracts where there's a provision in the contract that says each year we reevaluate it depending on the availability of funds. That's just standard practice. If you have that kind of provision, then it is possible that the second or third or fourth year of an existing contract might be affected by a Gramm-Rudman——

The CHAIRMAN. That's exactly my question, and you answered it. If you delve into the total, you may abridge long-term contracts because the money is not going to be there.

Mr. DEWHURST. If the contract provides for that kind of reevaluation, you're right; that's true in some programs. To be honest with you, I don't have a list of which programs.

The CHAIRMAN. Well, but that's—I'm sorry, I'm taking too much time. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Now the fairness question, Mr. Thompson, if you weren't ready to quit your job, I'm glad you didn't agree with Mr. English a moment ago because I think when we examine from an agricultural perspective the fairness question, it's clearly not going to be fair to the American farmer, because when you exempt 59 percent or roughly 60 percent of the budget from sequestering, that part of the 40 percent is not going to be a fair and an across-the-board cut. That's part of the problem that I have with Gramm-Rudman, and it's part of the difficulty in the chairman's line of questioning here and other members—the difficulty of making this work within the agricultural function of the budget is going to be extremely difficult because we're looking at 4.5 percent of the budget and we're going to be taking, well, 10 percent of the cuts. That's just the way it's going to work.

I guess the thing that bothers me—and I hope you will think about this and then correct me if I'm wrong—but when you say in your statement "Failure to achieve a balanced budget can be blamed on every sector and the importance of this to agriculture," I agree with that. I've got no problems with the cuts that we're talking about. Agriculture is going to have to take their share of the cuts, but when you say that spending under the current farm bill is now $53 billion and we project it at 11 to 12, we have to, I think, take into consideration the economic conditions that have caused that.

Were we not to have spent that money, where would agriculture be? Where would our farm credit system be today had we not spent that extra $30 billion? What would that have caused in these same projections?

Mr. THOMPSON. I'm not sure that we can reach that logical conclusion. We're spending record amounts of money and agriculture seems to be increasingly worse off. I interpret that to mean that the old programs simply are not working in a modern, capital-intensive, export-dependent sector.

Mr. STENHOLM. I don't argue with that.

Mr. Thompson. We need to redesign some of those programs to meet the needs of the modern reality. I don't think throwing more and more billions of dollars out in undifferentiated deficiency payments will buy us prosperity.

Mr. Stenholm. Oh, you quoted me on that and vice versa. I agree with you on that statement.

But I guess the thing that bothers me about Gramm-Rudman is we're going to accumulate another $569 billion in debt over the next 5 years as we wait for Gramm-Rudman. Now again it comes back to my previous line of questioning. I really sincerely believe that your handling of the budget deficit on the House Agriculture Committee is not a fair and accurate manner in which to handle it, and I've said that—I don't want to repeat that.

But when we're talking about accumulating $569 billion more, we have to assume that this overall world economic condition that is going to allow agriculture to move to a more prosperous position and interest rates to be lowered is going to happen kind of slow. I've just got to assume that it's not going to happen overnight, and that's why when we talk about taking 10 percent of the cuts out of the agricultural function and then tomorrow we start the hearings on farm credit, in which we clearly—it doesn't come as a shock to any of us in agriculture, certainly on this committee, that our credit institutions are in trouble because agriculture is in trouble; agriculture is in trouble because their costs are not being met; the price received is not there.

I'm concerned as we try to fit this as yet unknown package together that we're going to be able to put a round peg in a square hole. But the question I'm leading up to now—again, we're assuming Gramm-Rudman, and the best figures today indicate we're going to have sequestering take effect November 1 of this year. If Gramm-Rudman passes, we're going to have sequester. It only matters, Mr. Chairman, whether we use Gramm-Rudman or whether we're going to have what I think is going to come out of the House, which is an expedited, a greater, immediate cut. That means we're going to have to cut somewhere from $1.5 to $3.4 billion, according to my figures, either $15 billion on Gramm-Rudman to cut from 195, which is current projected spending, down to the 180 level, which is the benchmark in Gramm-Rudman, or if we go to 161, which is being kicked around on the Democratic side as to where we want to go on fiscal 1986, we're talking about $34 billion. You gave a 10-percent figure a while ago for agriculture. About 10 percent of the cuts is what we're going to be looking at. That's $1.5 to $3.4 billion.

Now let's assume the $1.5 billion, that we've got to come back or the President's got to sequester. My question is, How will your current threat to veto the farm bill because of the dairy provisions in the House—how will you, the administration, handle that threat when clearly what you're suggesting for dairy is going to cost more in 1986? We all agree to that. You've testified to that.

If you've got a proposal that's going to increase spending in 1986, how are you going to justify that with the sequestering procedure that says we've got to cut $1.5 billion from where we are today?

Mr. Thompson. Obviously, all the savings are not going to come out of dairy, but dairy will have to bear its part. I think we have to be concerned here not only with meeting the budget mark, but also getting good public policy. We're convinced that if we go with a supply control route on dairy, we'll turn dairy into an industry about as efficient as peanuts and tobacco, which have suffered from the past difficulties of supply control measures.

Mr. STENHOLM. Excuse me. I understand the policy implications. What I'm asking you is, from the sequestering basis now——

Mr. THOMPSON. OK.

Mr. STENHOLM [continuing]. Admitting that we need better policy and we need to do all of these things, but is that going to be allowable under the sequestering procedure as Gramm-Rudman has presented it to us or are we going to be across-the-board cuts from a baseline that I judge we really haven't decided which baseline we're going to be using yet.

Mr. THOMPSON. The baseline that we would use at the time the cuts were to be made, would be to project what the dairy program was going to cost in the next year, and on that basis decide by what percent we would need to lower the support price of milk in order to bring the projected cost of the dairy price support program in line with the new budget mark, as dictated by Gramm-Rudman.

Mr. STENHOLM. But, in your judgment, the House version is not good policy, even though it spends less money.

Mr. THOMPSON. That's correct.

Mr. STENHOLM. So you're going to be arguing now, assuming Gramm-Rudman passes, we're going to have Gramm-Rudman before we're going to have a farm bill.

Mr. THOMPSON. That's correct.

Mr. STENHOLM. So, again, my question is, while we're arguing about what's good policy and what's not, how are we going to make the determination—or how is the President in this case going to make the determination? You've said—and I believe you're correct—that it's got to be function by function, lines straight across the board. I don't quite follow how you're going to apply the dairy difference in policy to that order if Gramm-Rudman passes.

Mr. THOMPSON. Is your concern really the fact that the farm bill will be passed after Gramm-Rudman is presumably going to be passed, and, therefore, how do we implement measures in the new farm bill relative to what we have right now?

Steve, did you answer that before?

It really gets into a legal question of authorizing legislation that follows Gramm-Rudman. I'd rather have counsel address that specific question. I'm not sure an economist has any expertise to address a legal issue like that.

Mr. KELLY. Mr. Stenholm, I'm not sure that I know much of the answer, either.

What I said before is that Gramm-Rudman establishes a procedure, and it clearly doesn't proscribe the ability of the Congress to enact new, authorizing legislation with whatever kind of a price tag. It anticipates that there will be a budget mark, and that if the authorizing legislation carries a price tag that will force deficits in excess of the target for that year in the 5-year period that Gramm-Rudman would apply, that it would not be in order for the Congress to do that absent finding some offsetting reductions in other areas.

Mr. STENHOLM. I understand that, and I believe that's the only way that it can work, but what I'm concerned about is policy arguments and determinations. Again, I come back to the figure that you've got in your chart that's showing that the Congress has exceeded the budget. Now that, again, is grossly misleading, according to the Congressional Budget Act that we have to lead under. We have to go with a January baseline.

Now we find ourselves in a situation in which we're not going to have the farm bill that we've got to cut before we're going to vote on Gramm-Rudman because we're going to vote on that Friday.

Mr. THOMPSON. OK. As I interpret the procedure, if Gramm-Rudman passes now, as we anticipate that it probably will, CBO and OMB are each going to have to make some assumptions about programs for agriculture to come up with a baseline against which we'll calculate the cuts. If we haven't got a farm bill yet, as we probably won't have, they're going to have to make their best guesses about what the dairy program is going to be. They'll have no alternative. Whether they will abstract from current law or anticipate passage of new legislation, I do not know. Is that what you'd expect, Steve, or——

Mr. DEWHURST. Of course, most Commodity Credit Corporation spending in 1986 is already built into the system. Dairy happens to be an exception to that. They'd either have to try to project current law or make some assumption about where the Congress might come out. I don't really know what they would do.

Mr. THOMPSON. But they'll have to each produce a baseline, and then agree to split the difference between the two baselines. That will be the mark against which we calculate necessary cuts.

I agree, it's not an ideal environment within which to operate.

Mr. STENHOLM. It's a tough environment to argue policy——

Mr. THOMPSON. That's right, because——

Mr. STENHOLM [contuining]. When we've got the heavy hand of the budget knife over it. It's difficult, and that's my point.

The CHAIRMAN. I thank the gentleman.

I guess, to use football language, we're not going to have a game plan. We're going to audible every play. [Laughter.]

Mr. BEDELL. Mr. Chairman?

The CHAIRMAN. Mr. Bedell.

Mr. BEDELL. Can I try to take my 5 minutes before we have to go to our vote?

The CHAIRMAN. I think we can, yes.

Mr. BEDELL. Yes.

Mr. Thompson, as Mr. Madigan pointed out, if it should be ruled that the employment contracts you have with servicemen mean that they are, indeed, contracts that are then off Gramm-Rudman, we're talking about 75 percent, as he pointed out, of the budget which would be exempt from the Gramm-Rudman cuts. If we also, then, take the other things that you have mentioned—I presume agriculture is not the only one in which there's at least some possibility that target and loan rates would be exempt at least the 1 year from the Gramm-Rudman, and that the contracts you have in regard to the long-term conservation contracts would be off budget. I presume there are other items as such.

Then we are down to where certainly no more than 25 percent of the budget is that area which could be considered controllable.

Then you have also pointed out quite clearly that in your opinion the agriculture function is exceeding the budget by nearly double from what was projected over the 3-year period. If, indeed, it's correct that the budget resolution as we have passed it is incorrect, which you say it is, and that could possibly be, and if we have a President who absolutely insists that there can be no tax increases and he's going to be here until 1989, then if we look at 1988, the difference between Gramm-Rudman and the CBO baseline, which is what we knew we had before we passed the budget resolution, and that's continuing with our programs as they were in July, if we just continued those programs such as they were, that provides for a cut of $135 billion. Now we're talking about 2 percent and 1 percent. That's not 2 percent; that's 50 percent of that controllable part of the budget that we would have to reduce.

I don't think we ought to mislead people by talking about 2 and 3 percent if, indeed, the figures are that in agriculture what we're talking about, if we pass Gramm-Rudman, is very possibly a 50 percent cut in our expenditures for agriculture at a time when we also have a serious problem in regard to our farm credit system, and that's going to add extra costs as well, and that would have to be included in the 50 percent cut.

What's wrong with my analysis of the situation?

Mr. DEWHURST. Obviously, if all your assumptions are correct, your conclusion is also correct——

Mr. BEDELL. Which ones are not correct, in your opinion?

Mr. THOMPSON. The percentage of the outlays which are controllable. I think you're grossly underestimating.

Mr. BEDELL. You think Mr. Madigan is wrong? Do you know whether the servicemen's contracts would be included as being contractual obligations or not?

Mr. DEWHURST. The only thing we can tell you is that the information provided to us by the Congressional Budget Office says, for instance, in 1986 that when you take out the items that are not subject to Gramm-Rudman, you have $581 billion in the Federal budget which would be subject to reductions under Gramm-Rudman. About $163 billion of that is indexed programs where the cost of living would come down. The remaining $418 billion is in discretionary programs, of which we represent about 10 percent.

Now, obviously, Mr. Madigan is involved in discussions that we're not a part of. If those figures change, agriculture's share changes.

Mr. BEDELL. So if that is correct, if Mr. Madigan's wrong and that's correct, then instead of the $250 billion, you've got $400. So then you only have to cut agriculture by 33⅓ percent, because you've got $135 off from $400, and $135 is a third or a little more than a third of the $400.

So under these circumstances, then, we're talking about a 33⅓ percent cut of agriculture while this President is in office, unless he changes and agrees to do something about revenues.

Then is that—what is wrong with that, then? You've said that one thing might be wrong. What else might be wrong about my analysis?

Mr. **Dewhurst**. Well, again, if the base we're dealing with is $581 billion——

Mr. **Bedell**. I thought you took $180 off that, so you're $400.

Mr. **Dewhurst**. Well, that's the indexed programs. They're taking part of the cuts. The indexed programs are taking part of the——

Mr. **Bedell**. Well, originally you testified it was $420 billion that was what could be considered as part of Gramm-Rudman.

Mr. **Dewhurst**. For the discretionary cuts in the second phase of a Gramm-Rudman cut—remember, there's two phases to it. There's a——

Mr. **Bedell**. Is the $420 right or is it wrong? Is the $420 wrong? You testified earlier that that was correct.

Mr. **Dewhurst**. That is the value of the discretionary programs that are subject to pro rata reduction. If that figure is correct and the overall Governmentwide cut is $75 billion——

Mr. **Bedell**. No, it's $135 in 1988.

Mr. **Dewhurst**. OK, then it's roughly double the figure I'm going to give you. We calculate about 6.5 percent. So you're talking 13 percent cut.

Mr. **Bedell**. Wait, wait, wait, wait. No, no. If you've got to cut $135 out of $400——

Mr. **Dewhurst**. You don't cut it out of $400.

Mr. **Bedell**. The difference between what Gramm-Rudman is going to be and what the baseline would be, the baseline as we had it, is from $243 to $180. That's $135 billion. Any second-grader knows that.

Mr. **Thompson**. But, Congressman, there are two parts to a Gramm-Rudman action.

Mr. **Bedell**. Does it say we've got to get to $108 in a 1988 deficit?

Mr. **Thompson**. No; CBO estimated $581 billion of outlays that are controllable, of which $163 billion are in the class I category, those which are covered by COLA's. So you remove your cost-of-living indexes on those first.

Mr. **Bedell**. Yes.

Mr. **Thompson**. Then you take your second phase which comes out of your class II controllable expenditures, which is $418 billion. So you have taken part of the necessary savings off the $163 from the COLA's.

Mr. **Bedell**. Do you disagree with $135 as being the difference between the CBO baseline and what Gramm-Rudman provides?

Mr. **Thompson**. No.

Mr. **Bedell**. You agree with that? It's $135?

Mr. **Thompson**. Yes.

Mr. **Bedell**. The thing you disagree with is whether it's $250 billion or whether it's $500-and-some billion; is that correct? Is that correct?

Mr. **Dewhurst**. Yes.

Mr. **Thompson**. Yes.

Mr. **Bedell**. OK. So the argument is not over the $135. The argument is whether it's 33 percent or whether it is 50 percent or whether it is whatever 135 is to 500, which is about what—25 percent; is that correct?

Mr. **Dewhurst**. Yes, sir.

Mr. BEDELL. It's less than 25. It's more than 25 percent. So the argument is not whether we're cutting 2, 3, or 4 percent. The argument is whether we're cutting 27, 33⅓, or 50 percent in 1988 if we don't do anything about revenues?

Mr. THOMPSON. No; you're assuming that Congress will not act to reduce authorization below the programs indicated in the DBO baseline.

Mr. BEDELL. No, I'm assuming——

Mr. THOMPSON. Congress can change the priorities by coming up with an alternative set of cuts, rather than across the board.

Mr. BEDELL. No, I'm assuming that they will cut other programs exactly the same percent as they do agriculture—is all I'm assuming.

Mr. THOMPSON. OK.

Mr. BEDELL. You're assuming that they're going to say, Naw, we won't do that. We'll cut education a lot more and we'll cut other programs that we have much more than we do agriculture. Or that's what the President would do, you're saying; is that right?

Mr. THOMPSON. No. You suggested where the cuts might occur. My only indication was that, if Congress feels that agricultural programs should be protected more than proportionately from cuts, presumably it will so act.

Mr. BEDELL. The total cuts that will have to be instituted—range of either 27 to 50 percent, if we don't do anything about taxes and if we go by the CBO baseline. That's the important thing. Those are the cuts that we would have to make.

Mr. DEWHURST. Yes, sir.

Mr. BEDELL. Between 27 and 50 percent?

Mr. THOMPSON. That's correct.

Mr. BEDELL. And the question is whether people would decide that we're not going to cut agriculture but we're going to cut these others more than 27 percent; we're going to cut them a lot more.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Thompson, Mr. Dewhurst, Mr. Kelly, we thank you very much.

Because of the legislation on the floor, some members were not able to be here. Would you be agreeable to submission of questions in writing that you could reply to, if there are any questions?

Mr. THOMPSON. Of course.

The CHAIRMAN. We thank you for your cooperation. I know this is a very difficult situation, but you faired well and we appreciate it.

The committee will stand adjourned.

[Whereupon, at 4:25 p.m., the committee recessed, to reconvene at the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Testimony
of
ROBERT L. THOMPSON
Assistant Secretary for Economics
U.S. Department of Agriculture
before the
Committee on Agriculture
U.S. House of Representatives
October 29, 1985

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today to discuss the impact of the proposed action on budget deficit reduction on American agriculture. With me are J. Michael Kelly, Associate General Counsel, and Stephen B. Dewhurst, Director of the Office of Budget and Program Analysis, both in the Department of Agriculture.

Deficit Reduction: Best Farm Policy

Reduction of the Federal budget deficit potentially is the most significant legislation of the 1980's, in terms of impact on U.S. farmers. People across the heartland of this Nation want and expect to know what the Administration and Congress are going to do about deficit reduction. Rural Americans are well aware that their future financial well-being is on the line. Probably more than any other item on the Congressional agenda this year, the Gramm-Rudman-Hollings Amendment holds the best news possible for American agriculture.

National Legacy

The growing national debt is a legacy future generations will inherit. We currently owe ourselves more than $1.8 trillion. According to the Congressional Budget Office, without any restraint, that figure is likely to grow to as much as $3 trillion in the next several years. Currently, it requires 15 cents from every tax dollar just to pay interest on the national debt—interest payments which increase along with the debt. And this is taxpayer money which is lost because it buys no service. (Chart 1.)

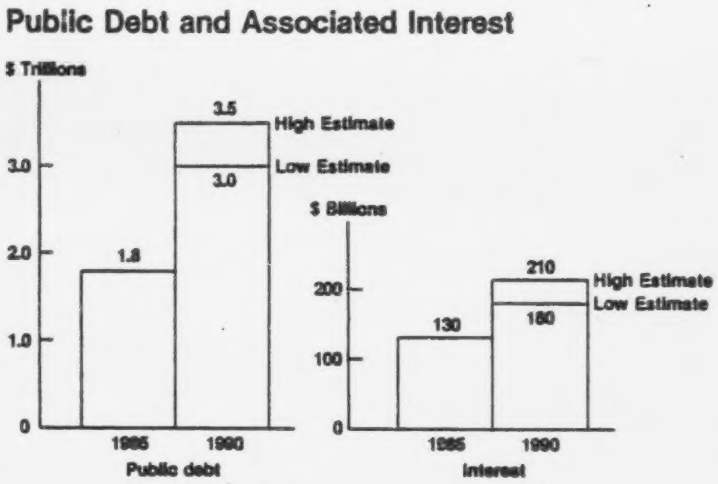

Chart 1

The debt problem persists because we have not been able to effectively reduce or eliminate the annual Federal deficit. The Congressional Budget Resolution may make progress in this direction but it will not eliminate the deficit. Final budget dimensions remain somewhat difficult to estimate, of course, because Congress is still deliberating major legislation—including the 1985 Farm Bill. But no matter what the final pricetag, something must be done. One vehicle to accomplish this is the Gramm-Rudman-Hollings Amendment which establishes a new set of targets to eliminate the deficit by 1991. More importantly, it spells out the mechanisms to help ensure that the job gets done. (Chart 2.)

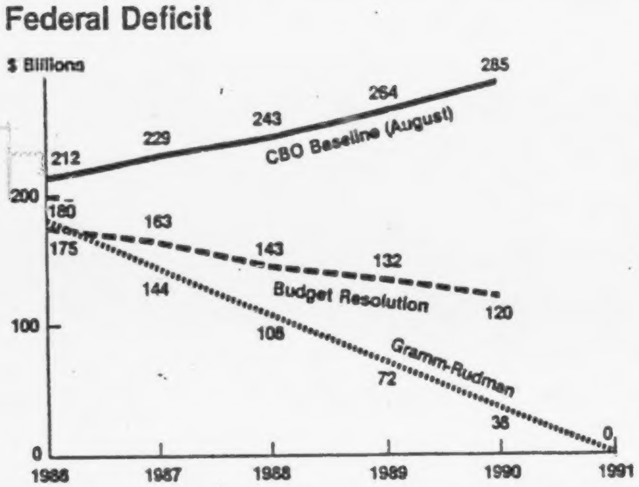

Chart 2

Impacts on Agriculture

Every American would benefit from Gramm-Rudman-Hollings, but today I want to focus especially on the sector I can best speak for--American agriculture. The Federal budget deficit hits U.S. agriculture particularly hard in two areas: through international trade on the global front and through the cost of servicing farm debt at home.

High Interest Rates

At home, farmers have invested heavily to increase production capacity and technology. And they borrow money to finance the bulk of these investments. Since the early 1970's, farm debt rose from about $50 billion to $130 billion in 1980 and $212 billion in 1985. In 1984, interest paid by farmers ranked as the largest cash cost of farm production. That cost came to $22 billion--for interest alone.

High budget deficits also have contributed to lower values of farm assets, especially land, because the high interest rates that accompany large deficits have helped to lower land prices. The higher the interest rate, the less a farmer—or any buyer—can afford to pay for land.

Deficit reduction will mean lower interest rates for all Americans. For our farmers, a 1-percent change in the average interest rate on outstanding debt will lead to about a $2-billion change in farm production expenses, obviously a major concern at a time when we hear so much about farm financial stress, low farm incomes, and freezes on target prices.

Those who argue the need for a target price freeze base their case on low farm income and debt stress in agriculture. Yet, in 1984, only 24 percent of Government payments went to seriously financially stressed farms—those with debt-to-asset ratios above 40 percent and negative cash flows. Further, only 17 percent of these payments went to financially stressed farms that relied primarily on farm income for their livelihood. This group of farmers would benefit especially from deficit reduction.

Effect on Trade

The most serious effect the deficit has had on farmers, however, is in international trade. Loss of exports and, in turn, depressed commodity prices, are what farmers pay for large budget deficits.

When we borrow abroad to satisfy public and private credit demands, the exchange rate goes up. A 10-percent increase in the value of the dollar can lead to an 8-to-10-percent loss in the value of agricultural exports. Because of the dollar's strength in 1981 and 1982 alone, an estimated additional $2 billion of grain moved into Government stockpiles instead of export markets. With action toward a budget deficit reduction, however, we can expect a gradual but sure return to export strength for U.S. farm products.

Failure to achieve a balanced budget can be blamed on every sector of the American economy to some degree. And agriculture must claim its fair share of the blame—farm policy, particularly. Spending under the 1981 Farm Bill has contributed to the current overall deficit. The 1981 bill was projected to cost between $11-12 billion; in fact, it has cost a total of $53 billion to date.

Regarding the new farm legislation, neither the House nor the Senate has produced a bill which would fall within the fiscal constraints established in the binding budget resolution. Over the next 3 years, price support costs could well exceed the budget resolution by anywhere between $10 and $30 billion. (Chart 3.)

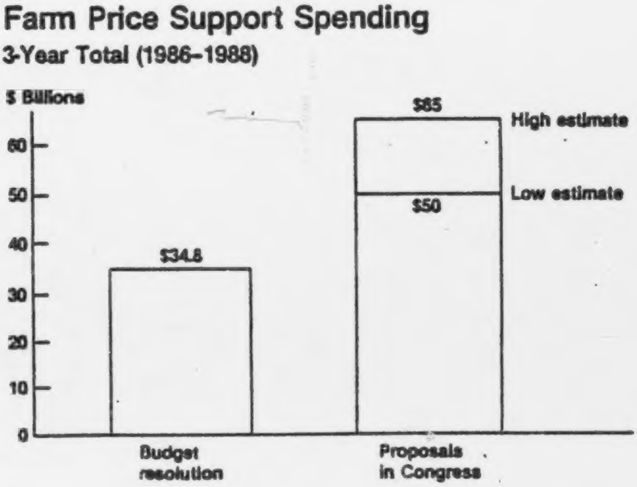

Chart 3

Summary

To restore the financial health of U.S. agriculture, the sector must regain its share of the global marketplace. In the absence of deficit reduction and attainment of a more market-oriented farm policy, however, we can anticipate continued declines in farm export levels, further deterioration of commodity prices, lower farm income, and higher Government price support costs. Consequently, for reestablishment of a healthy farm economy, achievement of these goals is absolutely essential.

Thank you, Mr. Chairman. I will be glad to answer any questions you may have.

USDA response to questions at
Gramm Rudman hearing October 31.

Commodity Programs

Q: There are forecasting questions associated with the commodity price support program budgets. Yields, exports, and acreage reduction programs participation estimates are three key variables that could change between the time legislation is written to reduce spending and a sequestration order is issued. If changes in these variables were to increase outlays, would greater program reductions have to be made and how? If changes in these variables were to reduce outlays, would program reductions be less?

A: Unforeseen changes in yields and other variables between the time legislation was written and the time a sequestration order is issued would affect the estimate by OMB and CBO of the extent to which the total deficit were in excess of the maximum deficit amount allowed. The amount of the deficit excess and, therefore, the across-the-board percentage reductions made in all eligible programs under the sequestration order would be greater or lesser dependent on whether commodity program costs are estimated to be higher or lower based on the most recent data on yields, participation rates, etc. There would apparently be no other specific adjustments required of commodity programs aside from those necessitated by the across-the-board reduction per the sequestration order.

Q: Because these key variables can change dramatically, what would be the consequences of actually spending more than would be permitted? What would be the consequences of actually spending less than permitted? Would the excess spending reduction be carried over to the next year?

A: Since changes in supply/demand conditions and program activities in a given crop year often affect program outlays in later fiscal years, the following fiscal year's deficit level may be altered slightly if CCC spending turns out to be higher or lower than expected. No other special adjustments to the following year's spending limits seem to be required if actual spending in a given year differs from planned levels, however.

Q: What might the year-to-year policy consequences for agriculture be? Would price support levels, if reduced under a sequestration order one year, automatically be restored in following years?

A: Our understanding is that price support or other reductions made under a sequestration order would be for one year at a time. At the end of one year support levels would automatically revert to those provided by the commodity program legislation unless another sequestration order were issued. Note for some commodities, the reductions required by a sequestration order would likely be implemented in the next crop year following the one in which the sequestering order was issued. This would probably occur since producers would have signed contracts for the crop produced during the current crop year. In order to avoid reneging on existing contracts it may be necessary to implement the reduction in the following crop year. The possibility of year-to-year support program adjustments due to sequestration orders would no doubt cause some additional uncertainty which farmers would have to cope with.

Q: There is a question as to when reductions in crop programs under contract actually occurs. Could sequestration mean delaying the reductions ordered for one fiscal year into later years because of the crop year-fiscal year relationship and the need to honor current contracts? What are the implications for equal treatment with non-contract commodities? Would for instance, dairy program reductions occur in one year and crop program reductions in another year? What are the equity implications for producers who then choose not to participate in the next crop year program that would be subject to reductions?

A: According to the "Boren Amendment" to the Senate bill, spending reductions resulting from a sequester order would be postponed until the next crop year, where contracts were already in effect between CCC and producers for the crop year in question. This raises the possibility that dairy program reductions, for example, may occur sooner than reductions for some contract commodities, since there are no contracts with individual producers under the dairy program. However, in every case equal reductions would be required across all commodity programs and the duration of the reductions would be the same, only the timing of the initiation of the reductions may differ. It is conceivable that some producers of the contract commodity could choose to not participate in the next crop year's program. This way they would in a sense avoid the direct effect of the reduction, but by doing so they also preclude themselves from enjoying any benefits of program participation the next year. In this sense such producers would not truly avoid bearing some burden from the reduction and the equity problem may be more apparent than real.

Federal Crop Insurance

Q: How would Federal crop insurance reductions be made? Would they be through reduced subsidies, which might dramatically reduce insurance purchases or through reduced coverage?

A: Outlays of the Federal Crop Insurance Corporation (FCIC) are to a considerable extent determined by premium subsidy levels and participant claims under insurance in force the previous year. Hence, legal obligations may limit the extent to which immediate reductions could be realized in FCIC outlays. Current year reductions in premium subsidy levels and/or coverage could be made under a sequestration order, although the effect on FCIC outlays would largely occur the following fiscal year. This is quite similar in effect to the situation for most of the commodity programs of the Commodity Credit Corporation (CCC). The Gramm-Rudman amendment adopted by the Senate, however, has no special provisions for FCIC although it does for CCC.

Reductions could be made in the coverage offered to individual participants. Reduced geographical or commodity coverage or other reductions in the amount of insurance sold could perhaps also be utilized. It would appear that other reductions aimed at directly limiting funds in the FCIC revolving fund available to pay indemnities or other legal obligations may not be feasible.

Current reductions in administrative and operating expenses could be achieved to some extent by cutting services provided by FCIC such as actuarial work, monitoring, and other functions. But the portion of administrative expenses that goes to reinsurance companies and master marketers under contract might not be readily reduced (depending on specific contract provisions).

Considerable analysis will be required to determine the precise feasible adjustments for FCIC necessary to meet a specific sequestration order reduction.

Farm Credit System Relief

Q: What avenues might remain available for Farm Credit System relief, if Gramm-Rudman were to become law?

A: Gramm-Rudman would not preclude passage of any future legislation. Congress would still be faced with passing a Budget Resolution coming within Gramm-Rudman deficit reduction targets. Congress in order to meet deficit reduction targets would have to reduce expenditures elsewhere if it passed new legislation. Or Congress may be able to pass legislation which fails to meet the deficit targets under certain conditions. If so, a sequester order would be issued and an across-the-board cut in Farm Credit Relief and all other programs subject to Gramm-Rudman cutbacks would be necessary.

In addition, guarantees of loans and other obligations do not count against the Federal deficit (unless or until defaults occur). Therefore, if these procedures for treating guaranteed loans are not altered such guarantees may provide a mechanism for use in Farm Credit System relief which might be less constrained by Gramm-Rudman than mechanisms requiring immediate outlays. This is not to say that such approaches would necessarily be more or less suitable for use in dealing with the problems of the Farm Credit System.

99TH CONGRESS
1ST SESSION

H. J. RES. 372

IN THE SENATE OF THE UNITED STATES

OCTOBER 10 (legislative day, SEPTEMBER 30), 1985
Ordered to be printed as passed

JOINT RESOLUTION

Increasing the statutory limit on the public debt.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (b) of section 3101 of title 31, United States Code, is amended by striking out the dollar limitation contained in such subsection and inserting in lieu thereof "$1,847,800,000,000, or $2,078,700,000,000 on and after October 1, 1985,".

(1) *SEC. 2. MINIMUM CORPORATE TAX BY CORPORATIONS.*

Notwithstanding any other provision of this joint resolution, the Senate Committee on Finance is directed to report to the Senate by July 1, 1986, legislation providing for payment of an alternative minimum corporate tax by corpora-

tions on the broadest feasible definition of income to assure that all of those with economic income pay their fair share of taxes: Provided, That said alternative minimum corporate tax shall take effect for corporate tax years commencing on or after October 1, 1986. The revenue raised by this tax shall be applied to reduce the Federal deficit.

(2) ***SEC. 3. DEFICIT REDUCTION PROCEDURES.***

(a) SHORT TITLE.—This section may be cited as the "Balanced Budget and Emergency Deficit Control Act of 1985".

(b) CONGRESSIONAL BUDGET.—

(1) ONE CONCURRENT RESOLUTION ON THE BUDGET REQUIRED ANNUALLY.—

(A) IN GENERAL.—Section 310 of the Congressional Budget Act of 1974 is amended—

(i) by striking out all beginning with "SEC. 310. (a)" through "necessary—" in the matter preceding paragraph (1) of subsection (a) and inserting in lieu thereof the following:

"SEC. 310. (a) IN GENERAL.—Any concurrent resolution on the budget considered under section 301 or section 304 for a fiscal year shall, to the extent necessary—"; and

(ii) by striking out subsection (b) and redesignating subsection (c) as subsection (b).

(B) CONFORMING CHANGES.—

(i) The table of contents in subsection (b) of section 1 of the Congressional Budget and Impoundment Control Act of 1974 is amended—

(I) by striking out "Adoption of first concurrent resolution" in the item relating to section 301 and inserting in lieu thereof "Annual adoption of concurrent resolution";

(II) by striking out "First concurrent resolution" in the item relating to section 303 and inserting in lieu thereof "Concurrent resolution"; and

(III) by striking out "Second required concurrent resolution and reconciliation" in the item relating to section 310 and inserting in lieu thereof "Reconciliation".

(ii) Paragraph (4) of section 3 of such Act is amended—

(I) by adding "and" after the semicolon at the end of subparagraph (A);

(II) by striking out subparagraph (B); and

(III) by striking out "(C) any other" and inserting in lieu thereof "(B) a".

(iii) Section 300 of the Congressional Budget Act of 1974 is amended—

(I) by striking out "first" in the item relating to April 15 and in the second item relating to May 15; and

(II) by striking out the items relating to September 15 and September 25.

(iv)(I) The heading of section 301 of the Congressional Budget Act of 1974 is amended to read as follows:

"ANNUAL ADOPTION OF CONCURRENT RESOLUTION".

(II) Section 301(a) of such Act is amended by striking out "the first concurrent resolution on the budget" in the first sentence and inserting in lieu thereof "a concurrent resolution on the budget".

(III) Section 301(b) of such Act is amended—

(aa) by striking out "first concurrent resolution on the budget" in the matter preceding paragraph (1) and inserting in lieu thereof "concurrent resolution on the budget referred to in subsection (a)"; and

(bb) in paragraph (1) by striking out all beginning with "the concurrent resolution" through "both" the second place it appears and inserting in lieu thereof "the Congress has completed action on any reconciliation bill or reconciliation resolution, or both, required by such concurrent resolution to be reported in accordance with section 310(b)".

(IV) Section 301(d) of such Act is amended by striking out "first" each place it appears.

(V) Section 301(e) of such Act is amended—

(aa) by striking out "set for" in paragraph (1) and inserting in lieu thereof "set forth"; and

(bb) by striking out "first concurrent resolution on the budget" each place it appears and inserting in lieu thereof "concurrent resolution on the budget referred to in subsection (a)".

(v) Section 302(c) of such Act is amended by striking out "or 310".

(vi)(I) The heading of section 303 of such Act is amended by striking out "FIRST".

(II) Section 303(a) of such Act is amended by striking out "first concurrent resolution on the budget" in the matter following paragraph (4) and inserting in lieu thereof "concurrent resolution on the budget referred to in section 301(a)".

(vii) Section 304 of such Act is amended—

(I) by striking out "first concurrent resolution on the budget" and inserting in lieu thereof "concurrent resolution on the budget referred to in section 301(a)"; and

(II) by striking out "pursuant to section 301".

(viii)(I) Section 305(a)(3) is amended by striking out "first concurrent resolution on the budget" and inserting in lieu thereof "concurrent resolution on the budget referred to in section 301(a)".

(II) Section 305(b) of such Act is amended—

(aa) in paragraph (1) by striking out ", except that" and all that follows through "15 hours"; and

(bb) in paragraph (3) by striking out "first concurrent resolution on the budget" and inserting in lieu thereof "concurrent resolution on the budget referred to in section 301(a)".

(ix) Section 308(a)(2)(A) of such Act is amended by striking out "first concurrent resolution on the budget" and inserting in lieu thereof "concurrent resolution on the budget referred to in section 301(a)".

(x) Paragraph (1) of section 309 of such Act is amended by striking out ", and other than the reconciliation bill for such year, if required to be reported under section 310(c)".

(xi) Section 310(f) of such Act is amended by striking out "subsection (a)" and inserting in lieu thereof "301(a)".

(xii) Section 311(a) of such Act is amended—

(I) by striking out "310(a)" the first place it appears and inserting in lieu thereof "301(a)"; and

(II) by striking out "310(c)" and inserting in lieu thereof "310(b)".

(2) MAXIMUM DEFICIT AMOUNTS.—

(A) ANNUAL CONCURRENT RESOLUTION ON THE BUDGET.—

(i) POINT OF ORDER.—Section 301 of the Congressional Budget Act of 1974 is amended by redesignating subsections (c), (d), and (e) as subsections (d), (e), and (f), respectively, and inserting after subsection (b) the following new subsection:

"(c) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.—

"(1) Except as provided in paragraph (2), it shall not be in order in either the House of Representatives or the Senate to consider or adopt any concurrent resolution on the budget for a fiscal year under this sec-

tion, or to consider or adopt any amendment to such a concurrent resolution, or to consider or adopt a conference report on such a concurrent resolution, if the level of total budget outlays for such fiscal year that is set forth in such concurrent resolution or conference report (or that would result from the adoption of such amendment), exceeds the recommended level of Federal revenues for that year by an amount that is greater than the maximum deficit amount specified for such fiscal year in section 3(7).

"(2) Paragraph (1) of this subsection shall not apply to any fiscal year for which a declaration of war has been enacted.".

(ii) CONFORMING CHANGES.—

(I) Section 301(a)(6) of such Act is amended by striking out "subsection (e)" and inserting in lieu thereof "subsection (f)".

(II) Section 301(e) of such Act, as redesignated by clause (i) of this subparagraph, is amended by inserting "; and when so reported such concurrent resolution shall comply with the requirement described in paragraph (1) of subsection (c), unless such paragraph

does not apply to such fiscal year by reason of paragraph (2) of such subsection" after "October 1 of such year" in the second sentence thereof.

(B) PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET.—Section 304 of such Act is amended—

(i) by inserting "(a) IN GENERAL.—" after "SEC. 304."; and

(ii) by adding at the end thereof the following new subsection:

"(b) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.—

"(1) Except as provided in paragraph (2), it shall not be in order in either the House of Representatives or the Senate to consider or adopt any concurrent resolution on the budget for a fiscal year under this section, or to consider or adopt any amendment to such a concurrent resolution, or to consider or adopt a conference report on such a concurrent resolution, if the level of total budget outlays for such fiscal year that is set forth in such concurrent resolution or conference report (or that would result from the adoption of such amendment), exceeds the recommended level of Federal revenues for that year by an amount that is greater than

the maximum deficit amount specified for such fiscal year in section 3(7).

"(2) Paragraph (1) of this subsection shall not apply to any fiscal year for which a declaration of war has been enacted.".

(C) DEFINITIONS.—Section 3 of the Congressional Budget and Impoundment Control Act of 1974 is amended by adding at the end thereof the following new paragraphs:

"(6) The term 'deficit' means, with respect to any fiscal year, the amount by which total budget outlays for such fiscal year exceed total revenues for such fiscal year. For purposes of the Balanced Budget and Emergency Deficit Control Act of 1985, the receipts of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund for a fiscal year, and the taxes payable under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954 during such fiscal year, shall be included in total revenues for such fiscal year, and the disbursements of either such Trust Fund for such fiscal year shall be included in total budget outlays for such fiscal year.

"(7) The term 'maximum deficit amount' means—

"(A) with respect to the fiscal year beginning October 1, 1985, $180,000,000,000;

"(B) with respect to the fiscal year beginning October 1, 1986, $144,000,000,000;

"(C) with respect to the fiscal year beginning October 1, 1987, $108,000,000,000;

"(D) with respect to the fiscal year beginning October 1, 1988, $72,000,000,000;

"(E) with respect to the fiscal year beginning October 1, 1989, $36,000,000,000; and

"(F) with respect to the fiscal year beginning October 1, 1990, zero.".

(3) RECONCILIATION.—

(A) ANNUAL CONCURRENT RESOLUTION ON THE BUDGET.—

(i) DIRECTIONS TO COMMITTEES.— Section 301(b) of the Congressional Budget Act of 1974 (as amended by paragraph (1)(B)(iv)(III) of this subsection) is further amended—

(I) by striking out "may also require" in the matter preceding paragraph (1) and inserting in lieu thereof "shall also, to the extent necessary to comply with subsection (c)";

(II) by inserting "require" after the paragraph designation in paragraph (1);

(III) by inserting "require" after the paragraph designation in paragraph (2); and

(IV) by redesignating paragraphs (1) and (2) as paragraphs (2) and (3), respectively, and inserting before paragraph (2) (as so redesignated) the following new paragraph:

"(1) specify and direct any combination of the matters described in paragraphs (1), (2), and (3) of section 310(a);".

(ii) CONFORMING CHANGES.—

(I) Section 310(a) of such Act is amended—

(aa) by inserting "or" at the end of paragraph (2);

(bb) by striking out "; or" at the end of paragraph (3) and inserting in lieu thereof a period; and

(cc) by striking out paragraph (4).

(II) Section 310(d) of such Act is amended by striking out "subsection (c)" and all that follows through "year" and inserting in lieu thereof "subsection (b) with respect to a concurrent resolution on the budget adopted under section 301(a) not later than June 15 of each year".

(III) Subsections (e) and (f) of section 310 of such Act are amended by striking out "subsection (c)" each place it appears and inserting in lieu thereof "subsection (b)".

(IV) Section 300 of such Act is amended by inserting immediately after the second item relating to May 15 the following new item:

"June 15 .... Congress completes action on reconciliation bill or resolution, or both, implementing annual required concurrent resolution.".

(B) PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET.—

(i) IN GENERAL.—Section 304(a) of such Act (as redesignated by paragraph (2)(B)(i) of this subsection) is amended by adding after the period the following new

sentence: "Any concurrent resolution adopted under this section shall specify and direct any combination of the matters described in paragraphs (1), (2), and (3) of section 310(a) to the extent necessary to comply with subsection (b).".

(ii) CONFORMING CHANGE.—Section 310(d) of such Act (as amended by subparagraph (A)(ii)(II) of this paragraph) is further amended by adding at the end thereof the following new sentence: "Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (b) with respect to a concurrent resolution on the budget adopted under section 304(a) not later than 30 days after the adoption of the concurrent resolution.".

(4) LIMITATION ON AMENDMENTS.—

(A) CONCURRENT RESOLUTIONS ON THE BUDGET.—

(i) HOUSE OF REPRESENTATIVES.—Section 305(a)(6) of such Act is amended—

(I) by inserting "(A)" after the paragraph designation; and

(II) by adding at the end thereof the following new subparagraph:

"(B)(i) No amendment that would have the effect of increasing any specific budget outlays above the level of such outlays set forth in a concurrent resolution on the budget, or of reducing any specific Federal revenues below the level of such revenues set forth in such concurrent resolution, shall be in order unless such amendment ensures that the amount of the deficit for any fiscal year set forth in such concurrent resolution is not increased, by making at least an equivalent reduction in other specific budget outlays or at least an equivalent increase in other specific Federal revenues, or at least any combination thereof.

"(ii) Clause (i) of this subparagraph shall not apply to any fiscal year for which a declaration of war has been enacted.".

(ii) SENATE.—Section 305(b)(2) of such Act is amended—

(I) by inserting "(A)" before the paragraph designation; and

(II) by adding at the end thereof the following new subparagraph:

"(B)(i) No amendment that would have the effect of increasing any specific budget outlays above the

level of such outlays set forth in a concurrent resolution on the budget, or of reducing any specific Federal revenues below the level of such revenues set forth in such concurrent resolution, shall be in order unless such amendment ensures that the amount of the deficit for any fiscal year set forth in the concurrent resolution is not increased, by making at least an equivalent reduction in other specific budget outlays or at least an equivalent increase in other specific Federal revenues, or at least any equivalent combination thereof.

"(ii) Clause (i) of this subparagraph shall not apply to any fiscal year for which a declaration of war has been enacted.".

(B) RECONCILIATION BILLS AND RESOLUTIONS.—Section 310 of such Act is amended by inserting after subsection (b) (as redesignated by paragraph (1)(A)(ii) of this subsection) the following new subsection:

"(c) LIMITATION ON AMENDMENTS TO RECONCILIATION BILLS AND RESOLUTIONS.—

"(1) It shall not be in order in either the House of Representatives or the Senate to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of increasing any specific budget outlays above the level

of such outlays provided in the bill or resolution, or would have the effect of reducing any specific Federal revenues below the level of such revenues provided in the bill or resolution, unless such amendment ensures that the amount of the deficit for any fiscal year set forth in the most recently agreed to concurrent resolution on the budget is not exceeded, by making at least an equivalent reduction in other specific budget outlays or at least an equivalent increase in other specific Federal revenues, or at least any equivalent combination thereof, except that a motion to strike a provision shall always be in order.

"(2) Paragraph (1) shall not apply to any fiscal year for which a declaration of war has been enacted.".

(5) ENFORCEMENT.—

(A) ALLOCATIONS OF BUDGET AUTHORITY AND OUTLAYS.—

(i) REPORTING DATE FOR ALLOCATIONS.—Section 302(b) of such Act is amended by striking out "Each such committee shall promptly report" in the last sentence and inserting in lieu thereof "Each such committee, within ten days of session

after the concurrent resolution is agreed to, shall report".

(ii) P*OINT OF ORDER.—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution, or amendment thereto, providing—*

(I) new budget authority for any fiscal year;

(II) new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act first effective in any fiscal year; or

(III) direct loan authority, primary loan guarantee authority, or secondary loan guarantee authority for any fiscal year;

within the jurisdiction of any committee which has received an allocation of budget authority or new spending authority described in section 401(c)(2)(C) pursuant to section 302(a) of the Congressional Budget Act for a fiscal year, unless and until such committee makes the allocation or subdivisions required by section 302(b) of the Congressional Budget Act, in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(iii) ALLOCATIONS MADE BINDING.—Section 311 of such Act is amended by redesignating subsections (a) and (b) as subsections (b) and (c), respectively, and inserting immediately after "SEC. 311" the following new subsection:

"(a) LEGISLATION SUBJECT TO POINT OF ORDER AFTER ADOPTION OF ANNUAL CONCURRENT RESOLUTION ON THE BUDGET.—

"(1) IN GENERAL.—At any time after the Congress has completed action on the concurrent resolution on the budget required to be reported under section 301(a) for a fiscal year, it shall not be in order in either the House of Representatives or the Senate—

"(A) to consider any bill or resolution (including a conference report thereon), or any amendment to a bill or resolution, that provides for budget outlays or new budget authority in excess of the appropriate allocation of such outlays or authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year; or

"(B) to consider any bill or resolution (including a conference report thereon), or any amendment to a bill or resolution, that provides new spending authority described in section 401(c)(2)(C) to become effective during such fiscal year, if the amount of budget outlays or new budget authority that would be required for such year if such bill or resolution were enacted without change or such amendment were adopted would exceed the appropriate allocation of budget outlays or new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, unless such bill, resolution, or amendment was favorably reported by the Committee on Appropriations of the House involved under section 401(b)(2) along with a certification that if such bill, resolution, or amendment is enacted or adopted, the committee will reduce appropriations or take any other actions necessary to assure that the enactment or adoption of such bill, resolution, or amendment will not result in a deficit for such fiscal year in excess of the maximum deficit amount specified for such fiscal year in section 3(7).

"(2) ALTERATION OF 302(b) ALLOCATIONS.—At any time after a committee reports the allocations required to be made under section 302(b), such committee may report to its House an alteration of such allocations: Provided, That any alteration of such allocations must be consistent with any actions already taken by its House on legislation within the committee's jurisdiction.

"(3) EXCEPTION.—Paragraph (1) shall not apply to any fiscal year for which a declaration of war has been enacted.".

(B) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.—Section 311(b) of such Act, as redesignated by subparagraph (A)(ii) of this subsection, is amended by inserting before the period at the end thereof the following: "or would cause the levels of deficits set forth in such concurrent resolution to be exceeded, or would otherwise result in a deficit for such fiscal year that exceeds the maximum deficit amount specified for such fiscal year in section 3(7) (except to the extent that paragraph (1) of subsection (b) of section 310 does not apply by reason of paragraph (2) of such subsection)".

(C) Reporting requirement extended to conference reports.—Section 308(a) of such Act is amended by striking out "the report accompanying that bill or resolution" in the matter preceding paragraph (1) and inserting in lieu thereof the following: "or whenever a conference report is filed in either House, the report accompanying that bill or resolution or the statement of managers accompanying that conference report".

(c) Budget Submitted by the President.—

(1) Maximum deficit amount may not be exceeded.—Section 1105 of title 31, United States Code, is amended by adding at the end thereof the following new subsection:

"(f)(1) The budget transmitted pursuant to subsection (a) for a fiscal year shall be prepared on the basis of the best estimates then available, in such a manner as to ensure that the deficit for such fiscal year shall not exceed the maximum deficit amount specified for such fiscal year in section 3(7) of the Congressional Budget and Impoundment Control Act of 1974; and the President shall take such action under subsection (d)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985 as is necessary to ensure that the deficit

for such fiscal year does not exceed such maximum deficit amount.

"(2) Subject to paragraph (3) of this subsection, the deficit set forth in the budget so transmitted for any fiscal year shall not exceed the maximum deficit amount specified for such fiscal year in section 3(7) of the Congressional Budget and Impoundment Control Act of 1974, with budget outlays and Federal revenues at such levels as the President may consider most desirable and feasible.

"(3) Paragraph (2) shall not apply with respect to any fiscal year for which a declaration of war has been enacted.".

(2) REVISIONS AND SUPPLEMENTAL SUMMARIES.—Section 1106 of title 31, United States Code, is amended by adding at the end thereof the following new subsection:

"(c) Subsection (f) of section 1105 shall apply to revisions and supplemental summaries submitted under this section to the same extent that such subsection applies to the budget submitted under section 1105(a) to which such revisions and summaries relate.".

(d) EMERGENCY POWERS TO ELIMINATE DEFICITS IN EXCESS OF MAXIMUM DEFICITS AMOUNTS.—

(1) REPORTING OF DEFICITS IN EXCESS OF MAXIMUM DEFICIT AMOUNTS.—

(A) IN GENERAL.—*The Director of the Office of Management and Budget and the Director of the Congressional Budget Office (hereafter in this section referred to as "the Directors") shall, with respect to any fiscal year (I) estimate the levels of total revenues and budget outlays that may be anticipated for such fiscal year, (II) determine whether the deficit for such fiscal year will exceed the maximum deficit amount for such fiscal year and whether such excess is statistically significant, and (III) estimate the rate of real economic growth that will occur during such fiscal year and the rate of economic growth that will occur during each quarter of such fiscal year. The Directors jointly shall report to the President and to the Congress on November 1 of such fiscal year (in the case of the fiscal year beginning October 1, 1985) and on the September 25 preceding each such fiscal year (in the case of any succeeding fiscal year), identifying the amount of any excess, stating whether such excess is statistically significant, specifying the estimated rate of real economic growth for such fiscal year and for each quarter of such fiscal year, and specifying the percentages by which automatic spending increases and con-*

trollable expenditures shall be reduced during such fiscal year in order to eliminate any such excess. In the event that the Directors are unable to agree on an amount to be set forth with respect to any item in any such report, the amount set forth for such item in such report shall be the average of the amounts proposed by each of them with respect to such item.

(B) EXCEPTION.—Subparagraph (A) shall not apply to any fiscal year for which a declaration of war has been enacted.

(2) PRESIDENTIAL ORDER.—

(A) CONTENTS.—

(i) IN GENERAL.—Upon receipt of any report from the Directors under paragraph (1) of this subsection which identifies a statistically significant amount by which the deficit for a fiscal year will exceed the maximum deficit amount for such fiscal year, the President shall eliminate the full amount of the deficit excess by issuing an order that—

(I) subject to clauses (ii), (iii), and (iv) of this subparagraph, and notwithstanding the Impoundment Control Act of 1974, eliminates one-half of such

excess by modifying or suspending the operation of each provision of Federal law that would (but for such order) require an automatic spending increase to take effect during such fiscal year, in such a manner as to reduce by a uniform percentage (but not below zero) the amount of outlay increase under each such provision, and

(II) subject to clauses (ii), (iii), and (iv) of this subparagraph, eliminates one-half of such excess by sequestering from each affected program, project, or activity (as defined in the most recently enacted relevant appropriations Acts and accompanying committee reports) or from each affected account if not so defined, for funds provided in annual appropriations Acts or, otherwise from each budget account, such amounts of budget authority, obligation limitation, other budgetary resources, and loan limitation, and by adjusting payments provided by the Federal Government, to the extent neces-

sary to reduce the outlays for each controllable expenditure by a uniform percentage: Provided, That any periodic payments to individuals or families which are in the nature of income support, supplementation, or assistance (including payments made pursuant to section 32 of the Internal Revenue Code of 1954 as amended or pursuant to chapter 11 or 13 of title 38, United States Code) and which are paid to such individuals or families directly by the United States (or by a person or entity acting as an agent of the United States) shall not be reduced pursuant to this subclause to a level which is lower than the level that would be payable in the absence of this subclause, but in the case of compensation, pursuant to chapter 11 or 13 of title 38, United States Code, a cost-of-living adjustment enacted into law to become effective in the fiscal year that is the first fiscal year to which the order described in this clause applies shall be treated as an automati-

cally-indexed program for purposes of subclause (i) of this clause;

and shall transmit to both Houses of the Congress a message—

(III) identifying—

(aa) the total amount and the percentage by which automatic spending increases are to be reduced under subclause (I) of this clause;

(bb) the total amount of budget authority, obligation limitations, loan limitations, and other budgetary resources which is to be sequestered under subclause (II) of this clause with respect to controllable expenditures;

(cc) the amount of budget authority, obligation limitations, loan limitations, and other budgetary resources which is to be sequestered with respect to each such controllable expenditure in order to reduce it by the required percentage; and

(dd) the account, department, or establishment of the Government to which each amount of budget authority, obligation limitations, loan limitations, and other budgetary resources described in subclause (II) of this clause would be available for obligation; and

(IV) providing full supporting details with respect to each action to be taken under subclause (I) or (II) of this clause.

Upon receipt in the Senate and the House of Representatives, the message shall be referred to all committees with jurisdiction over programs, projects, or activities affected by it.

(ii) EXCEPTION.—If, in order to reduce by one-half the amount by which the deficit for a fiscal year exceeds the maximum deficit amount for such fiscal year, actions under clause (i)(I) would require the reduction of automatic spending increases below zero, then, in order not to require such reductions below zero, the remaining amount

shall be achieved through further uniform reductions under clause (i)(II).

(iii) LIMITATION.—No action taken by the President under subclause (I) or (II) of clause (i) shall have the effect of eliminating any program, project, or activity of the Federal Government.

(iv) LIMITATION.—Any automatic spending increases modified or suspended, or any amounts of budget authority, obligation limitation, other budgetary resources, or loan limitations sequestered by an order of the President under this Act are permanently cancelled, and the legal rights, if any, of persons to receive such automatic spending increases shall be deemed to be extinguished to the extent that the operation of laws providing for such increases are modified or suspended by such an order.

(v) Nothing in subclause (I) or (II) of clause (i) shall be construed to give the President new authority to alter the relative priorities in the Federal budget that are established by law, and no person who is, or becomes, eligible for benefits under any pro-

vision of law shall be denied eligibility by reason of this section.

(B) DATE ISSUED.—

(i) POSITIVE REAL ECONOMIC GROWTH.—If the estimate of real economic growth set forth in a report transmitted under paragraph (1) of this subsection is zero or greater, the President shall issue the order required to be issued under this subsection pursuant to such report not later than 14 days after transmittal of such report.

(ii) NEGATIVE REAL ECONOMIC GROWTH.—If the estimate of real economic growth set forth in a report transmitted under paragraph (1) of this subsection is less than zero with respect to such fiscal year or with respect to each of any two consecutive quarters of such fiscal year, the President shall issue the order required to be issued under this subsection pursuant to such report not later than 30 days after transmittal of such report.

(C) EFFECTIVE DATE.—

(i) IN GENERAL.—Except to the extent that it is superseded by a reconciliation bill

or reconciliation resolution enacted or adopted under paragraph (3) of this subsection, an order issued pursuant to this paragraph shall become effective 30 days after its issuance. Any modification or suspension by such order of the operation of a provision of law that would (but for such order) require an automatic spending increase to take effect during a fiscal year shall apply for the one-year period beginning with the date on which such automatic increase would have taken effect during such fiscal year (but for such order).

(ii) WITHHOLDING OF BUDGET AUTHORITY FOR THIRTY-DAY PERIOD.—During the 30-day period referred to in clause (i), the President shall withhold from obligation the amounts that would have been suspended or sequestered under such order with respect to such 30-day period if the order issued pursuant to this paragraph had become effective on the date of its issuance. If a reconciliation bill or reconciliation resolution enacted or adopted under paragraph (3) of this subsection becomes law on or

before the last day of such 30-day period, amounts withheld from obligation pursuant to the preceding sentence shall be made available for obligation to the extent permitted by such reconciliation bill or reconciliation resolution. If such a reconciliation bill or reconciliation resolution does not become law during such period, the budget authority withheld from obligation under the first sentence of this clause shall be permanently cancelled as described in paragraph (2)(A)(iv) of this subsection.

(D) PROPOSAL OF ALTERNATIVES.—A message transmitted pursuant to this paragraph with respect to a fiscal year may be accompanied by a proposal setting forth in full detail alternative ways to reduce the deficit for such fiscal year to an amount not greater than the maximum deficit amount for such fiscal year. Upon receipt in the Senate and the House of Representatives, the message and any accompanying proposal shall be referred to all committees with jurisdiction over programs, projects, or activities affected by it.

(3) CONGRESSIONAL ACTION.—

(A) REPORTING OF CONCURRENT RESOLUTIONS AND RECONCILIATION BILLS AND RESOLUTIONS.—

(i) IN GENERAL.—Not later than 10 days after issuance of an order by the President under paragraph (2) with respect to a fiscal year, the Committee on the Budget of the House of Representatives and the Senate may report to its House a concurrent resolution. The concurrent resolution may affirm the impact of the order issued under paragraph (2), in whole or in part. To the extent that any part of the order is not affirmed, the concurrent resolution shall state which parts are not affirmed and shall contain instructions to committees of the House and the Senate of the type referred to in section 310(a) of the Congressional Budget Act of 1974, sufficient to achieve at least the total level of deficit reduction contained in those sections which are not affirmed.

(ii) RESPONSE OF COMMITTEES.—Committees instructed pursuant to clause (i) of this subparagraph, or affected thereby, shall submit their responses to their respec-

tive Budget Committees no later than 10 days after the conference report on the concurrent resolution referred to in clause (i) is agreed to in both Houses, except that if in either House only one such Committee is so instructed such Committee shall, by the same date, report to its House a reconciliation bill or reconciliation resolution containing its recommendations in response to such instructions. A committee shall be considered to have complied with all instructions to it pursuant to a concurrent resolution adopted under clause (i) if it has made recommendations with respect to matters within its jurisdiction which would result in a reduction in the deficit at least equal to the total reduction directed by such instructions.

(iii) BUDGET COMMITTEE ACTION.—Upon receipt of the recommendations received in response to a concurrent resolution referred to in clause (i) of this subparagraph, the Budget Committee of each House shall report to its respective House a reconciliation bill or reconciliation resolution, or both, carrying out all such recommendations without

any substantive revisions. In the event that a committee instructed in a concurrent resolution referred to in clause (i) fails to submit any recommendation (or, when only one committee is instructed, fails to report a reconciliation bill or resolution) in response to such instructions, the Budget Committee of the relevant House shall include in the reconciliation bill or reconciliation resolution reported pursuant to this clause legislative language within the jurisdiction of the noncomplying committee to achieve the amount of deficit reduction directed in such instructions.

(iv) POINT OR ORDER.—It shall not be in order in the House of Representatives or the Senate to consider or agree to any bill or resolution reported under clause (iii) with respect to a fiscal year, any amendment thereto, or any conference report thereon if—

(I) the enactment of such bill or resolution as reported;

(II) the adoption and enactment of such amendment; or

(III) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the amount of the deficit for such fiscal year to exceed the amount of the deficit set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year or the maximum deficit amount for such fiscal year, unless the report submitted under paragraph (1)(A) projects negative real economic growth for such fiscal year, or for each of any two consecutive quarters during such fiscal year.

(v) TREATMENT OF CERTAIN AMENDMENTS.—An amendment which adds to a concurrent resolution reported under clause (i) an instruction of the type referred to in such clause shall be in order during the consideration of such resolution if such amendment would be in order but for the fact that it would be held to be non-germane on the basis that the instruction constitutes new matter.

(vi) DEFINITION.—For purposes of clauses (i) and (ii), the term "day" shall

mean any calendar day on which either House of the Congress is in session.

(B) P*ROCEDURES.*—

(i) I*N GENERAL.—Except as provided in subclause (ii), the provisions of sections 305 and 310 of the Congressional Budget Act of 1974 for the consideration of concurrent resolutions on the budget and conference reports thereon shall also apply to consideration of concurrent resolutions, and reconciliation bills and reconciliation resolutions reported under this paragraph and conference reports thereon.*

(ii) L*IMIT ON DEBATE.—Debate in the Senate on any concurrent resolution reported pursuant to subclause (i) of subparagraph (A), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to 10 hours.*

(iii) L*IMITATION ON AMENDMENTS.—Section 310(c) of such Act (as added by subsection (b)(4)(B) of this section) shall apply to reconciliation bills and reconciliation resolutions reported under this paragraph.*

(iv) COMPLIANCE WITH INSTRUCTIONS.—Section 310 of the Congressional Budget Act of 1974 is amended by adding at the end thereof the following new subsection:

"(g) COMPLIANCE WITH RECONCILIATION DIRECTIONS.—Any committee of a House of the Congress that is directed, pursuant to a concurrent resolution on the budget to recommend changes of the type described in paragraphs (1) and (2) of subsection (a) with respect to laws within its jurisdiction, shall be deemed to have complied with such directions—

"(1) if—

"(A) the amount of the changes of the type described in paragraph (1) of such subsection recommended by such committee, and

"(B) the amount of the changes of the type described in paragraph (2) of such subsection recommended by such committee,

do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under such paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under both such paragraphs; and

"(2) if the total amount of the changes recommended by such committee is not less than the total of the amounts of the changes such committee was directed to make under both such paragraphs.".

(4) DEFINITIONS.—For purposes of this subsection:

(A) The term "automatic spending increase" shall include all Federal programs indexed directly, whether appropriated or contained in current law. This shall not include increases in Government expenditures due to changes in program participation rates. Such term shall not include any increase in benefits payable under the old-age, survivors, and disability insurance program established under title II of the Social Security Act.

(B) The term "budget outlays" has the meaning given to such term in section 3(1) of the Congressional Budget and Impoundment Control Act of 1974.

(C) The term "concurrent resolution on the budget" has the meaning given to such term in section 3(4) of the Congressional Budget and Impoundment Control Act of 1974.

(D) The term "deficit" has the meaning given to such term in section 3(6) of the Congres-

sional Budget and Impoundment Control Act of 1974.

(E) The term "maximum deficit amount" has the meaning given to such term in section 3(7) of the Congressional Budget and Impoundment Control Act of 1974.

(F) The term "real economic growth" means, with respect to a fiscal year, the nominal growth in the production of goods and services during such fiscal year, adjusted for inflation.

(G) The term "controllable expenditures" means total budget outlays for any account, or any program, project, or activity enumerated by annual appropriation Acts and by applicable committee reports, except those described in subparagraph (A) and except outlays for benefits payable under the old-age, survivors, and disability insurance program established under title II of the Social Security Act, outlays due to increases in program participation rates, outlays for prior-year obligations, and outlays for interest on the public debt. Such term shall also include funds for existing contracts unless—

(i) penalty provisions in such contract would produce a net loss to the Government; or

(ii) reduction of the contract violates legal obligations of the Government.

(H) The term "sequester" means the permament cancellation of budget authority, obligation limitations, other budgetary resources, or loan limitations, to the extent necessary to reduce each controllable expenditure by a uniform percentage.

(I) The term "other budgetary resources" means unobligated balances, reimbursements, receipts credited to an account, and recoveries of prior-year obligations.

(J) The amount by which the deficit for a fiscal year exceeds the maximum deficit amount for such fiscal year shall be treated as "statistically significant" if the amount of such excess is greater than 5 percent of such maximum deficit amount. For purposes of the fiscal year beginning October 1, 1985, the preceding sentence shall be applied by substituting "7" for "5".

(e) BUDGETARY TREATMENT OF SOCIAL SECURITY TRUST FUNDS.—

(1) FISCAL YEARS 1986 THROUGH 1992.—

(A) In general.—Section 710 of the Social Security Act (as added by paragraph (1) of subsection (a) of section 346 of the Social Security Amendments of 1983) is amended—

(i) by striking out all beginning with "the" the first place it appears down through "Disability Insurance Trust Fund, the" and inserting in lieu thereof "The";

(ii) by striking out "sections 1401, 3101, and 3111" and inserting in lieu thereof "1401(b), 3101(b), and 3111(b)";

(iii) by redesignating all after the section designation as subsection (b);

(iv) by inserting after the section designation the following:

"(a) The receipts and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, and the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954, shall not be included in the totals of the budget of the United States Government as submitted by the President or of the congressional budget and shall be exempt from any general budget limitation imposed by statute on expenditures and net lending (budget outlays) of the United States Government."; and

(v) by adding at the end thereof the following new subsection:

"(c) No provision of law enacted after the date of the enactment of the Balanced Budget and Emergency Deficit Control Act of 1985 (other than a provision of an appropriation Act that appropriates funds authorized under the Social Security Act as in effect on the date of enactment of the Balanced Budget and Emergency Deficit Control Act of 1985) may provide for payments from the general fund of the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, or for payments from any such Trust Fund to the general fund of the Treasury.".

(B) APPLICATION.—The amendments made by subparagraph (A) shall apply with respect to fiscal years beginning after September 30, 1985, and ending before October 1, 1992.

(2) FISCAL YEAR 1993 AND THEREAFTER.—Section 710(a) of the Social Security Act (42 U.S.C. 911 note), as amended by section 346(b) of the Social Security Amendments of 1983 (to be effective with respect to fiscal years beginning after September 30, 1992) is amended by—

(A) inserting "(1)" after the subsection designation; and

(B) adding at the end thereof the following new paragraph:

"(2) No provision of law enacted after the date of the enactment of the Balanced Budget and Emergency Deficit Control Act of 1985 (other than a provision of an appropriation Act that appropriates funds authorized under the Social Security Act as in effect on the date of enactment of the Balanced Budget and Emergency Deficit Control Act of 1985) may provide for payments from the general fund of the Treasury to any Trust Fund specified in paragraph (1) or for payments from any such Trust Fund to the general fund of the Treasury.".

(f) BUDGET ACT WAIVERS.—Section 904 of the Congressional Budget Act is amended—

(1) by striking out subsection (b) and inserting in lieu thereof the following new subsection:

"(b) Except as provided in subsection (c), any provision of title III or IV may be waived or suspended in the Senate by a majority vote of the Members voting, a quorum being present, or by the unanimous consent of the Senate."; and

(2) by redesignating subsection (c) as subsection (d), and inserting after subsection (b) the following new subsection:

"(c) The provisions of section 305(b)(2) and section 306 of this Act may be waived or suspended in the Senate and the

House of Represenlaives only by the affirmative vote of three-fifths of the Members of that House duly chosen and sworn.".

(g) OTHER WAIVERS AND SUSPENSIONS.—The provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 may be waived or suspended in the Senate and the House only by the affirmative vote of three-fifths of the Members of that House duly chosen and sworn.

(h) SUPPLEMENTAL BUDGET ESTIMATES.—Section 1106 of title 31, United States Code, is amended by striking out "July 16" each place it appears and inserting in lieu thereof "September 16".

(i) POINT OF ORDER.—Notwithstanding any other provision of law, it shall not be in order in the Senate or House of Representatives to consider any reconciliation bill or reconciliation resolution reporterd pursuant to a concurrent resolution on the budget agreed to under section 301 or 304 of the Congressional Budget Act of 1974, or any amendment thereto, or conference report thereon that contains recommendations with respect to the Federal Old-Age and Survivors Insurance Trust Fund or the Federal Disability Insurance Trust Fund, with respect to revenues attributable to the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954, or with respect to the old-age, survivors, and disability insurance program established under title II of the Social Security Act.

(j) APPLICATION.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), this section and the amendments made by this section shall become effective on the date of the enactment of this section and shall apply with respect to fiscal years beginning after September 30, 1985, and before October 1, 1991.

(2) EXCEPTION.—The amendments made by subsections (b)(1), (b)(2)(A), (b)(3)(A), (b)(5)(A)(i), (c) of this section shall apply with respect to fiscal years beginning after September 30, 1986, and before October 1, 1991.

(3) OASDI TRUST FUNDS.—The amendments made by subsection (e) shall apply as provided in such subsection.

(k) The provisions of this Act, other than those relating to the activities of the executive branch, are enacted by the Congress—

(1) as an exercise of the rulemaking power of the House of Representatives and the Senate, respectively, and as such they shall be considered as part of the rules of each House, respectively, or of that House to which they specifically apply, and such rules shall supersede other rules only to the extent that they are inconsistent therewith; and

(2) with full recognition of the constitutional right of either House to change such rules (so far as relating to such House) at any time, in the same manner, and to the same extent as in the case of any other rule of such House.

(l) SENSE OF THE SENATE.—It is the sense of the Senate that any funding reductions or sequestering of controllable expenditures implemented by the various Federal agencies as a result of this Act shall be made uniformly and shall not disproportionately be made in the funding of programs targeted for rural and lesser populated areas.

(m) REPORT REQUIRED.—The Directors of the Office of Management and Budget and the Congressional Budget Office, and the Secretary of the Treasury, shall jointly report to the President and to the Committee on Finance and the Committee on Ways and Means on the projected level of revenues which would be raised by increased and improved tax enforcement and collection through audits, examinations, and other methods designed to eliminate tax cheating and increase revenue collections from individuals and corporations evading Federal taxation. The report shall include an analysis of measures which can be implemented to increase voluntary compliance with tax laws, including increased staff for taxpayer assistance, speedier processing of returns, improved information processing and collection, and public education de-

signed to increase public trust and understanding of the Internal Revenue Service enforcement efforts. The report shall also include an estimate of the level of increased expenditures for Internal Revenue Service enforcement and compliance efforts at which additional expenditures would not yield additional revenues of at least $2 of revenue for every $1 in expenditures. The report shall be issued on an annual basis no later than the date on which the President submits a proposed budget for each fiscal year to the Congress.

(n) TREATMENT OF CERTAIN COST-OF-LIVING ADJUSTMENTS.—During the time in which a sequester order is in effect, any cost-of-living adjustment for Social Security shall not count as income for purposes of determining Supplemental Security Income payments or payments from any other programs which are offset as a consequence of cost-of-living adjustments for Social Security.

(o) Section 1105(c) of title 31, United States Code, is amended—

(1) by striking out "The" the first place it appears and inserting in lieu thereof "(1) Notwithstanding any other provision of law, the";

(2) by inserting "(other than action that would require an increase in borrowing authority or an increase in the limit imposed by section 3101(b) of this title by more than the applicable amount for the fiscal

year for which the budget is submitted)" after "action" the first place it appears; and

(3) by adding at the end thereof the following new paragraph:

"(2) For purposes of this subsection, the term 'applicable amount' means—

"(A) with respect to the fiscal year beginning October 1, 1986, $144,000,000,000;

"(B) with respect to the fiscal year beginning October 1, 1987, $108,000,000,000;

"(C) with respect to the fiscal year beginning October 1, 1988, $72,000,000,000;

"(D) with respect to the fiscal year beginning October 1, 1989, $36,000,000,000; and

"(E) with respect to the fiscal year beginning October 1, 1990, and each fiscal year thereafter, zero.".

(p)(1) In preparing any report required under subsection (d)(1) for a fiscal year, the Directors shall comply with this subsection.

(2) The Directors shall—

(A) examine—

(i) each contract with a total amount of budget authority in excess of $20,000,000 under which outlays will be made in such fiscal year to

determine whether such contract includes provisions for adjusting outlays in such fiscal year under such contract as a result of inflation; and

(ii) any other Government activity which the Directors consider appropriate under which outlays in such fiscal year will be increased as a result of inflation; and

(B) assume, in determining the total amount of outlays which will be made in such fiscal year, that the adjustments for inflation made in contracts described in clause (i) of subparagraph (A) and activities described in clause (ii) of such subparagraph will be made on the best available estimate of inflation for such fiscal year.

(3) In the event that the Directors are unable to agree under paragraph (2) on an amount of outlays with respect to any particular contract or activity, the Directors shall use the average of the amounts proposed by each of them with respect to such contract or activity.

(q) COMMODITY CREDIT CORPORATION LOANS AND GUARANTEED STUDENT LOANS.—Any contract entered into after a sequester order has been issued for the applicable fiscal year, by which the Commodity Credit Corporation and entities providing Federal guarantees for student loans shall agree to make payments out of an entitlement account to any

person, lender or guarantee entity shall be deemed to be controllable expenditures and shall be subject to reduction under the Presidential order, and any such contract shall explicitly provide for such reduction for the entire contractural period: Provided, That in regard to commodity loans made by the Commodity Credit Corporation to producers or producer cooperatives for a commodity produced in the same crop year, those loans for the same commodity shall be subject to the same terms and conditions: Provided further, That noncontract programs supported through the Commodity Credit Corporation shall be deemed to be controllable expenditures and shall be subject to reduction in the same fashion as other programs under the Presidential order: Provided further, That programs supported through the Commodity Credit Corporation shall be deemed to be the reduction in the level of commodity price support programs, supported through the Commodity Credit Corporation, shall not exceed a uniform percentage of reduction specified for those programs in the sequester order.

(3) *SEC. 4. ACHILLE LAURO HIJACKING.*

(a) The Senate finds that—

(1) the four men identified as the hijackers of the Achille Lauro were responsible for brutally murdering an innocent American citizen, Leon Klinghoffer, and

for terrorizing hundreds of innocent crew members and passengers for two days;

(2) the United States urges all countries to aid in the swift apprehension, prosecution, and punishment of the terrorists; and

(3) the United States should not tolerate any country providing safe harbor or safe passage to the terrorists.

(b) It is the sense of the Senate that—

(1) the United States demands that no country provide safe harbor or safe passage to these terrorists;

(2) the United States expects full cooperation of all countries in the apprehension, prosecution, and punishment of these terrorists;

(3) the United States cannot condone the release of terrorists or the making of concessions to terrorists; and

(4) the United States identify those individuals responsible for the seizure of the Achille Lauro and the cold-blooded murder of Leon Klinghoffer, as well as those countries and groups that aid and abet such terrorist activities, and take the strongest measures to

ensure that those responsible for this brutal act against an American citizen are brought to justice.

Passed the House of Representatives August 1, 1985.

Attest: BENJAMIN J. GUTHRIE,

Clerk.

Passed the Senate October 10 (legislative day, September 30), 1985.

Attest: JO-ANN COE,

Secretary.

SECTIONAL ANALYSIS OF
HOUSE JOINT RESOLUTION 372,
AS AMENDED BY THE SENATE

Section 1--public debt limit

Section 1 will amend section 3101 of title 31 of the United States Code, which establishes the public debt limit. The amendment made by section 1 would raise the debt ceiling to $2,078,700,000,000.

Section 2--minimum corporate tax

Section 2 will direct the Senate Committee on Finance to report legislation, by July 1, 1986, providing for an alternative minimum tax on corporations, to ensure that corporations with income pay their fair share of taxes. The revenue from the tax would be applied to reduce the Federal deficit.

Section 3--deficit reduction procedures

Section 3 is the "Gramm-Rudman-Hollings" bill and contains 17 subsections. The subsections cover the following matters:

(a)--short title;

(b), (f), and (g)--the congressional budget process;

(c), (h), and (o)--budget submissions by the President;

(d)--presidential emergency powers (suspensions and sequestrations) to eliminate deficits in excess of targets;

(e), (i), and (n)--the Social Security Act;

(j), (k), (l), (m), and (p)--miscellaneous provisions; and

(q)--Commodity Credit Corporation loans and guaranteed student loans.

This analysis of section 3 addresses each subsection, in order, separately.

Subsection (a)--short title

Subsection (a) of section 3 provides that section 3 may be cited as the "Balanced Budget and Emergency Deficit Control Act of 1985".

Subsection (b)--congressional budget

Subsection (b) of section 3 contains five paragraphs that address, respectively--

(1) the concurrent resolution on the budget for each fiscal year;

(2) maximum deficit amounts;

(3) reconciliation;

(4) limits on amendments to budget bills; and

(5) enforcement of the congressional budget process.

Concurrent resolution on the budget: Subsection (b)(1) of section 3 will temporarily amend section 310 of the Congressional Budget Act of 1974 (hereinafter referred to as the "Budget Act"), which currently directs Congress to pass, by September 15 of each year, a second concurrent resolution on the budget for the fiscal year beginning October 1 thereafter. The second concurrent resolution, under existing law, is intended to reaffirm or revise the first concurrent resolution and, as appropriate, provide reconciliation instructions.

The amendment to section 310 would be effective for fiscal years 1987 through 1991, and would eliminate the second concurrent resolution and provide for the inclusion of reconciliation instructions in the May 15 budget resolution (which under existing law is the first concurrent resolution).

NOTE: Subsection (b)(1) would not affect the provision under section 304 of the Budget Act, which authorizes Congress, at any time prior to the end of the fiscal year involved, to revise the May 15 budget resolution for that fiscal year.

Maximum deficit amounts: Subsection (b)(2) of section 3 will temporarily amend sections 301 (May 15 budget resolution) and 304 (revisions to the resolution) of the Budget Act to add new provisions to subject to a point of order budgets that exceed the maximum deficit amounts for fiscal years 1987 through 1991. It also will temporarily amend--through fiscal year 1991--section 3 (definitions) of the Budget Act to define the terms "deficit" and "maximum deficit amount".

Under the amendments to sections 301 and 304, it would not be in order, in either House, to consider or adopt a May 15 budget resolution or a later revised resolution, an amendment to either resolution, or a conference report on either resolution, as follows: If the level of budget outlays for the fiscal year involved in the resolution or conference report (or that would result from the amendment) exceeds the level of Federal revenues for that year recommended in the resolution by an amount greater than the maximum deficit amount for that fiscal year. However, the point of order would not lie against a resolution (or amendment thereto) or conference report applicable to "any fiscal year for which a declaration of war has been enacted".

Subsection (b)(2) also will amend the provisions of section 301 that require the House and Senate budget committees to report out the concurrent budget resolution by April 15. The amendment would add a new provision requiring that such reported resolutions for each of the fiscal years 1987 through 1991 comply with the prohibition against resolutions exceeding the maximum deficit amounts for those fiscal years.

The new definitions added to the Budget Act by subsection (b)(2) are as follows:

> (1) The term "deficit", for any fiscal year, is defined as the amount by which budget outlays for the year exceed revenues, and with respect to the fiscal years covered by H.J.Res. 372 (fiscal years 1986 through 1991), Social Security disbursements and receipts will be included in outlays and revenues, respectively. (But see the analysis of subsection (e) below. Subsection (e) specifically provides that Social Security disbursements and receipts cannot be included in the Federal budget.)
>
> (2) The term "maximum deficit amount" is defined for each of the fiscal years 1986 through 1991, and is a specific amount, as follows:

(a) fiscal year 1986--$180 billion;

(b) fiscal year 1987--$144 billion;

(c) fiscal year 1988--$108 billion;

(d) fiscal year 1989--$72 billion;

(e) fiscal year 1990--$36 billion; and

(f) fiscal year 1991--zero.

(NOTE: As defined, the maximum deficit amount declines by a uniform $36 billion annually over the six-year period until it reaches zero.)

Reconciliation: Subsection (b)(3) of section 3 will temporarily amend sections 301 (May 15 budget resolution) and 304 (revisions to the resolution) of the Budget Act to extend, to fiscal years 1987 through 1991, the reconciliation requirements under the Act to May 15 budget resolutions and revisions, and to require reconciliation to comply with the maximum deficit amount provisions added by subsection (b)(2).

Subsection (b)(3) also will amend section 310 of the Budget Act (effective for fiscal years 1987 through 1991) to require that Congress complete action on any reconciliation legislation connected to the May 15 budget resolution not later than June 15. Likewise, effective for fiscal years 1986 through 1991, reconciliation legislation connected to section 304 revisions would have to be completed within 30 days.

Further, subsection (b)(3) will make conforming changes to sections 300 and 310 of the Budget Act.

Limitations on amendments: Subsection (b)(4) of section 3 will temporarily amend (through fiscal year 1991) sections 305 and 310 of the Budget Act to restrict the offering of amendments to budget resolutions and reconciliation legislation.

Section 305 sets out the procedures for consideration, in the House and the Senate, of concurrent budget resolutions. Under the amendments in subsection (b)(4), language would be added to section 305 to change the procedures relating to amendments, as follows: Any amendment to a budget resolution that would have the effect of--

> (1) increasing "any specific budget outlays above the level of such outlays set forth in a concurrent resolution on the budget", or
>
> (2) reducing "any specific Federal revenues below the level of such revenues set forth in such concurrent resolution",

would be out of order unless the amendment is accompanied by an equivalent reduction in outlays, or increases in revenue, or combination of such reductions and increases, elsewhere in the resolution. The new point of order would not apply to any fiscal year for which a declaration of war has been enacted.

Section 310 sets out the provisions governing reconciliation legislation. Under the amendment in subsection (b)(4), language would be added to section 310 making any amendment to any reconciliation legislation subject to the same point of order in nonwartime situations, except that a motion to strike a provision always will be in order.

Enforcement: Subsection (b)(5) of section 3 will temporarily add new provisions to the Budget Act to--

(1) increase requirements (including a new point of order) with respect to budget authority and outlay allocations under section 302(b);

(2) create a new point of order under section 311 against legislation that causes the maximum deficit amount for a fiscal year to be exceeded; and

(3) extend budget reporting requirements to conference reports.

These provisions are described in more detail below.

Subsection (b)(5) of section 3, effective for the 1987 through 1991 fiscal years, will amend section 302(b) to require each committee of Congress to report its section 302(b) allocations within 10 days after the concurrent budget resolution for that fiscal year is agreed to (which has to be adopted not later than May 15 preceding the beginning of the fiscal year to which the resolution applies). Under section 302(b), each committee is required to subdivide (or allocate) among the committee's subcommittees or among the programs in its jurisdiction the portion of the fiscal year's budget authority and outlays assigned to the committee in the conference report on the budget resolution. The committee must further subdivide the allocation to each subcommittee or program into controllable amounts and other amounts.

Subsection (b)(5) also contains a free-standing provision (subparagraph (A)(ii)), effective through fiscal year 1991, that makes consideration of a committee's legislation out of order until the section 302(b) allocation is completed. Specifically, subparagraph (A)(ii) provides that it will be out of order for the House or Senate to consider any bill, resolution, or amendment providing, for any fiscal year--

(1) new budget authority;

(2) new spending authority (described in section 401(c)(3)(C) of the Budget Act); or

(3) direct loan authority, primary loan guarantee authority, or secondary loan guarantee authority

within the jurisdiction of a committee that has received an allocation of budget authority or spending authority (described in section 401(c)(3)(C)) under a budget resolution until that committee completes its section 302(b) allocations for that fiscal year.

Finally, in connection with section 302(b) allocations, subsection (b)(5) will add--effective through fiscal year 1991--new provisions to section 311 (which, under current law, provides for a point of order against legislation that would create new budget authority or new spending authority that would cause the overall level for new authority specified in the budget resolution for a fiscal year to be exceeded). Specifically, the new provisions create a new point of order against any bill, resolution, amendment, or conference report that provides for new outlays or budget authority (including new outlays or budget authority required for any section 401(c)(3)(C) spending authority created by such legislation) in excess of a committee's section 302(b) allocation for a fiscal year. The point of order would not lie against new section 401(c)(3)(C) spending authority if (1) the legislation is favorably reported by the Committee on Appropriations under section 401(b)(2) of the Budget Act and (2) the Appropriations Committee certifies that, if the legislation is enacted, it will reduce appropriations or take other actions to ensure that the legislation does not cause the deficit for the fiscal year involved to exceed the maximum deficit amount.

The points of order would not apply during time of war.

The new section 311 provisions also will authorize committees to alter their section 302(b) allocations, once made, as long as the alteration is consistent with actions already taken by the House involved on legislation within the committee's jurisdiction.

Subsection (b)(5) of section 3 will amend, effective through fiscal 1991, current section 311 provisions that make out of order--after the budget resolution and any reconciliation legislation for a fiscal year have been enacted--legislation (including amendments and conference reports) creating new budget authority or spending authority, or reducing revenues, for that fiscal year that would cause the level of the budget authority and outlays in the resolution to be exceeded or the level or revenues to be reduced, respectively. The amendment would extend the point of order to legislation that would cause the levels of deficits set forth in the resolution to be exceeded or would result in a deficit that exceeds the maximum deficit amount for the fiscal year (if it is one of the fiscal years 1986 through 1991).

Subsection (b)(5) of section 3 also will amend section 308(a) (reports) of the Budget Act, effective through fiscal year 1991. Under the amendment, the statement of the managers accompanying each conference report providing new budget authority will be required to include a cost estimate that--

(1) details how the new budget authority under the legislation compares to the budget authority figures set forth in the budget report and section 302 reports for that fiscal year;

(2) contains a five-year estimate of the outlays involved; and

(3) states the amount of new budget authority and outlays provided by the legislation for financial assistance to State and local governments.

Subsection (c)--budget submitted by the President

Subsection (c) of section 3 will temporarily add a new subsection (f) to section 1105 (submission of the President's budget to Congress) of title 31 of the United States Code, effective for fiscal years 1987 through 1991.

Proposed new subsection (f) of section 1105 states that the President's budget for any of the fiscal years 1987 through 1991 must be prepared so as to ensure that the deficit for the fiscal year does not exceed the maximum deficit amount (as defined under subsection (b)(2)(C)) for the fiscal year. It also provides that the President will have to take the suspension or modification action and sequestration action provided for under subsection (d)(2) of section 3 as necessary to ensure that the deficit for the fiscal year involved does not exceed the maximum deficit amount.

New subsection (f) further states that the deficit set forth in the budget for any such fiscal years may not exceed the maximum deficit amount for the year, with budget outlays and Federal revenues at the levels the President considers most desirable and feasible. This requirement will not apply during time of war.

Subsection (c) of section 3 also will amend section 1106 (supplemental budget estimates) of title 31 of the United States Code to apply the provisions of new subsection (f) to budget revisions and supplemental summaries submitted under section 1106 for fiscal years 1987 through 1991.

Subsection (d)--emergency powers to eliminate deficits in excess of maximum deficit amounts (paragraph (1)):

Subsection (d) of section 3 will be effective through fiscal year 1991 and, for the most part, is free-standing law. It has four paragraphs that cover the following:

- -- paragraph (1): reporting of deficits in excess of maximum deficit amounts;
- -- paragraph (2): presidential orders;
- -- paragraph (3): congressional action; ;and
- -- paragraph (4): definitions.

Reporting of deficits in excess of maximum deficit amounts (paragraph (1)): Paragraph (1) of subsection (d) will require the Director of the Office of Management and Budget and the Director of the Congressional Budget Office to submit, jointly, annual reports to the President and Congress on the budget deficits, as follows:

The first joint annual report, applicable to fiscal year 1986, would be submitted on November 1, 1985. With respect to each following fiscal year through fiscal year 1991, the joint report would be submitted on September 25 preceding the beginning of the fiscal year. Each report would include the following information:

(1) the amount by which any estimated deficit for the fiscal year involved will exceed the maximum deficit amount for that fiscal year ("maximum deficit amount" is defined under the provisions of subsection (b)(2)(C));

(2) whether any such excess deficit is "statistically significant" (that term is defined in paragraph (4) of subsection (d), which is discussed below);

(3) an estimation of the rate of real economic growth for the fiscal year and each quarter thereof; and

(4) the percentages by which "automatic spending increases" and "controllable expenditures" (those terms are defined in paragraph (4) of subsection (d), which is discussed below) will have to be reduced during the fiscal year to eliminate any such excess.

If the OMB and CBO directors cannot agree on any amount to be included in the report, the amount set forth in the report will be the average of the amounts proposed by each director. Reports would not be required during time of war.

Presidential orders (paragraph (2)):

(a) Contents: If the directors' report for a fiscal year identifies a statistically significant amount by which the deficit for that year will exceed the maximum deficit amount, the President must issue an order reducing outlays so as to eliminate the full amount of the excess. The order would have two parts: (1) modification or suspension of automatic spending increases, and (2) sequestration of a portion of controllable expenditures.

Up to one-half of the excess would be eliminated by modifications or suspensions of automatic spending increases. If one-half of the excess amounts to more than the amount of spending increase available for modification or suspension, the remaining amount of the excess would have to be covered by sequestration. Modification or suspension would take place notwithstanding the Impoundment Control Act of 1974 (which otherwise limits the authority of the President to withhold or delay Government obligations or expenditures). Modification or suspension would apply to the operation of each provision of Federal law requiring an automatic spending increase to take place in the fiscal year involved (except for increases in certain Social Security Act benefits), and would be done so as to reduce each outlay increase by a uniform percentage.

One-half of the excess (or more if reductions or suspensions of automatic spending increases would not be sufficient to cover all of the other half) would be eliminated by sequestration, or adjustment of payments, with respect to controllable expenditures. Specifically, the President would--

(i) sequester, from--

(A) each program, project, or activity, as defined in the most recently enacted relevant appropriations Acts and accompanying committee reports; and

(B) each budget account, if not so defined,

amounts of budget authority, obligation limitation, "other budgetary resources" (defined in paragrapah (4) of subsection (d), which is discussed below, and loan limitation, and

(ii) adjust payments provided by the Federal Government,

to the extent necessary to reduce outlays for each

each controllable expenditure (by a uniform percentage) so as to eliminate the excess deficit amount remaining after permissable modifications or suspensions of automatic spending increases for the fiscal year are made. Veterans benefit payments would be excluded from the sequestration process, but cost-of-living adjustments to such payments would be subject to modification or suspension as automatic spending increases.

(b) Message to Congress: In conjunction with issuing an order, the President also would be required to transmit to Congress a message--

(i) identifying the total amount and percentage by which automatic spending increases are to be reduced through a modification or suspension;

(ii) identifying the total amount to be sequestered, and the sequestration amount for each controllable expenditure; and

(iii) providing full supporting details with respect to each modification or suspension and sequestration action.

The President could include in the message his proposal setting forth, in full detail, alternative ways to reduce the deficit for the fiscal year below the maximum deficit amount. The message would be referred to all committees with jurisdiction over programs, projects, or activities affected by it.

(c) Limitation: No order issued by the President could have the effect of eliminating any program, project, or activity of the Federal Government.

(d) Effect of orders: Any automatic spending increases modified or suspended under an order, any amount of budget authority, obligation limitation, other budgetary resources, or loan limitation sequestered under an order, would be permanently cancelled and the legal rights, if any, of persons to receive the automatic spending increases would be deemed to be extinguished to the extent of the modification or suspension.

(e) Restriction on the President's authority: The President would have no new authority to alter, under an order, the relative priorities in the Federal budget that are established by law; and no person eligible for benefits under any provision of law could be denied eligibility by reason of section 3 of the bill.

Procedures related to recessions (paragraph (2)): If the OMB and CBO directors' estimate of real economic growth for a fiscal year set forth in the report for such fiscal year is zero or greater, the President would be required to issue the order--if issuance of the order is triggered by the directors' report--not later than 14 days after transmittal of the order. However, if the estimate is for a decline in the economy for the fiscal year or for each of any two consecutive quarters of the fiscal year, the President would have up to 30 days before the order must be issued.

Effective dates of orders (paragraph (2)): Unless superseded by reconciliation legislation under paragraph (3) of subsection (d) (discussed below), an order would become effective 30 days after its issuance. A modification or suspension of an automatic spending increase would apply for the one-year period beginning on the date on which the automatic increase would have taken effect during the fiscal year but for the order.

During the 30-day period between an order's issuance and effective date, the President would withhold from obligation amounts that would be suspended or sequestered under the order. If reconciliation legislation under paragraph (3) becomes law prior to the end of the 30-day period, the amounts withheld would become available for obligation to the extent permitted by the reconciliation legislation. However, unless the reconciliation legislation becomes law within the 30-day period, any budget authority withheld would be permanently cancelled.

Congressional action (paragraph (3)):

(a) Concurrent resolution: Paragraph (3) of subsection (d) provides that not later than ten days (counting only those days in which either of the Houses of Congress is in session) after the President issues an order and sends it to

Congress, the Committee on the Budget of either House could report a concurrent resolution affirming the order in whole or in part. If any part of the order is not affirmed, the concurrent resolution would have to contain reconciliation instructions to authorizing committees sufficient to achieve at least the total level of deficit reductions contained in the sections of the order not affirmed. During the debate in either House on such a concurrent resolution, any amendment that adds a reconciliation instruction will be in order even if it, otherwise, would be held to be nongermane on the basis that it constitutes new matter.

(b) Reconciliation: Under paragraph (3), each committee given reconciliation instructions would have ten days (counting only those days in which either House of Congress is in session) after the conference report on the concurrent resolution is adopted in which to submit its response to the Budget Committee. If only one committee, in either House, is given reconciliation instructions, that committee would have to report its reconciliation legislation directly to its House within such ten-day period. Compliance by a committee with its reconciliation instructions would consist of recommendations, with respect to matters within its jurisdiction, that would result in a reduction in the deficit at least equal to the reduction directed by the instructions.

On receipt of the reconciliation recommendations of the various committees, the Budget Committee of each House would report to its House omnibus reconciliation legislation carrying out all such recommendations without any substantive revisions. If a committee fails to submit any recommendation in response to instructions, the Budget Committee in the House involved would be required to include, in the reconciliation legislation, legislative proposals within the jurisdiction of the noncomplying committee to achieve the amount of deficit reduction directed in the instruction.

(c) Point of order: Paragraph (3) states that it will not be in order, in either House, to agree to the reconciliation legislation for a fiscal year under paragraph (3), any amendment to it, or the conference report on it if adoption of such legislative proposal would cause the deficit for the fiscal year to exceed the deficit specified in the budget resolution for the fiscal year or the maximum deficit amount for the fiscal year. However, the point of order would not lie if the OMB and CBO directors' report for the fiscal year projects a decline in the economy for the fiscal year or for each of any two consecutive quarters during the fiscal year.

(d) Floor procedures: Paragraph (3) provides that the procedures for debate in Congress of budget resolutions under section 305 of the Budget Act and of reconciliation legislation under section 310 of the Budget Act will apply to consideration of concurrent resolutions and reconciliation legislation under paragraph (3) (except that debate in the

Senate on a concurrent resolution under paragraph (3) would be limited to ten hours). In addition, the new temporary provisions of section 310(c) of the Budget Act making it out of order in either House to consider any amendment to reconciliation legislation that has the effect of increasing the deficit for the fiscal year involved would apply to reconciliation bills under paragraph (3).

(e) Ways and Means Committee and Finance Committee: Paragraph (3) would add a new subsection (g) at the end of section 310 (reconciliation) of the Budget Act--effective through fiscal year 1991--to give, to committees of Congress with reconciliation instructions to increase revenues as well as decrease outlays, flexibility in complying with their reconciliation instructions. Achievement of 80 percent of the outlay reductions or revenue increases required of such a committee under reconciliation will be permitted as long as the combined outlay reductions and revenue increases reported by the committee achieve 100 percent of the total savings required of the committee.

Definitions (paragraph (4)): Paragraph (4) of subsection (d) defines--

(1) "automatic spending increase" to include all Federal programs (sic) indexed directly, whether appropriated or contained in current law. However, not included under the definition are--

(a) any increase in expenditures due to changes in program participation rates;

(b) increases in benefits under the old-age, survivors, and disability insurance program under the Social Security Act;

(2) "real economic growth" to mean, with respect to a fiscal year, nominal growth in the production of goods and services during the fiscal year, adjusted for inflation;

(3) "controllable outlays" to mean total budget outlays for any account, or any program, project, or activity enumerated by annual appropriation Acts and by applicable committee reports, except it does not include--

(a) directly indexed Federal programs;

(b) outlays for benefits payable under the old-age, survivors, and disability insurance program under the Social Security Act;

(c) outlays due to increases in program participation rates;

(d) outlays for prior-year obligations; and

(e) outlays for interest on the public debt.

The term would include funds for existing contracts unless--

(a) penalty provisions in the contract would produce a net loss to the Government; or

(b) reduction of the contract violates legal obligations of the Government;

(NOTE: Subsection (q) of section 3 (discussed below) separately provides that Commodity Credit Corporation programs and contracts will be considered to be controllable expenditures.)

(3) "sequester" to mean the permanent cancellation of budget authority, obligation limitations, other budgetary resources, or loan limitations, to the extent necessary to reduce each controllable expenditure by a uniform percentage;

(4) "other budgetary resources" to mean unobligated balances, reimbursements, receipts credited to an account, and recoveries of prior-year obligations; and

(5) "statistically significant", with respect to the amount by which the deficit for any of the fiscal years 1986 through 1991 exceeds the maximum deficit amount for the year, to mean 5 percent of the maximum deficit amount involved, except that for fiscal year 1986, it means 7 percent of the maximum deficit amount.

Subsection (e)--budgetary treatment of Social Security trust funds

Subsection (e) of section 3 will amend section 710 of the Social Security Act, which deals with the budgetary treatment of Social Security trust funds. Under the amendments to be made by subsection (e), effective beginning in fiscal year 1986, receipts and disbursements from (1) Social Security's Federal Old-Age and

Survivors Insurance Trust Fund and Disability Insurance Trust Fund, and (2) social security taxes, will not be included in the annual Government budget, as submitted by the President or developed by Congress. The receipts and disbursements also will be exempt from any general budget limitation imposed by statute on Government budget outlays. Further, under the amendment, payments to the general fund of the Treasury from the trust funds, or vice versa, will be prohibited other than funds appropriated under authorization provided by the Social Security Act (as in effect on the date that the bill is enacted).

(NOTE: The definition of "deficit" under subsection (b)(2) provides that Social Security receipts and disbursements will be included in revenues and outlays for the purpose of determining whether a deficit exists.)

Subsection (f)--Budget Act waivers

Subsection (f) of section 3 will add--effective through fiscal year 1991--a new provision to section 904 of the Budget Act, which concerns the relation of the Budget Act to the rules of the Houses of Congress. The new provision states that the provisions of--

(1) section 305(b)(2) of the Budget Act, which provides that, during debate in the Senate on any concurrent budget resolution, any amendment to the resolution that has the ef-

fect of increasing the deficit for the fiscal year involved is out of order; and

(2) section 306 of the Budget Act, which states that any bill, resolution, or amendment dealing with a matter under the jurisdiction of the Budget Committee of either House cannot be considered in the House involved unless the bill or resolution has been reported by the Budget Committee or is an amendment to such a bill or resolution,

can be waived or suspended in the Senate and House only by a three-fifths vote of the total membership of the body.

Subsection (g)--other waivers and suspensions

Subsection (g) of section 3 states that the provisions of the bill could be waived or suspended in the Senate and House only by a three-fifths vote of the total membership of the body. This three-fifths requirement would apply to--

(1) a point of order under subsection (b)(4) of section 3 against spending legislation under a committee's jurisdiction until that committee has completed its section 302(b) allocations for the fiscal year involved;

(2) the point of order under the procedures relating to reconciliation legislation following a presidential order of modification or suspension and sequestration for a fiscal year under subsection (d) of section 3 (the point of order being that any such reconciliation legislation, except in

times of recession, cannot cause the deficit for the fiscal year to exceed the deficit agreed to under the budget resolution, or the maximum deficit amount, for the fiscal year);

(3) the procedures spelled out in paragraph (3)(B)(i) governing congressional consideration of presidential orders; and

(4) the point of order, under subsection (i) of section 3, against inclusion of legislation affecting the Social Security system in reconciliation bills.

Subsection (h)--supplemental budget estimates

Subsection (h) of section 3 will amend section 1106 (supplemental budget estimates and changes) of title 31 of the United States Code. Under the amendment, the date by which the President must submit to Congress a supplemental summary of his January budget for the upcoming fiscal year would be changed from July 16 to September 16.

Subsection (i)--point of order (Social Security)

Subsection (i) of section 3 will make it out of order, in the House and Senate, to consider any reconciliation legislation that contains recommendations relating to the Social Security trust funds or taxes or to the old-age, survivors, and disability insurance program under the Social Security Act.

Subsection (j)--application

Subsection (j) of section 3 contains the effective dates for section 3, as follows: Generally, all the section 3 provisions will cease being effective at the end of fiscal year 1991. Subsection (j) would delay--until fiscal year 1987--the effective date of the provisions of section 3: (1) going from two concurrent budget resolutions for each fiscal year to just one, (2) making the concurrent budget resolution for a fiscal year subject to the "maximum deficit amount" limitations (since the concurrent resolution for fiscal year 1986 has been enacted already), (3) moving up the reconciliation process from September to June, (4) requiring section 302(b) allocations for a fiscal year to be completed within 10 days after the budget resolution for the fiscal year is enacted, and (5) requiring the President to submit budgets with deficits below the maximum deficit amount.

Subsection (k)--exercise in rulemaking

Subsection (k) of section 3 states that the provisions of the bill, other than those relating to the activities of the executive branch, are being enacted by Congress--

> (1) as an exercise of the rulemaking power of the House and Senate, and as such are to be considered as part of the rules of each House, or of the House to which they specifically apply, superseding other rules only to the extent that they are inconsistent with those rules; and

(2) with full recognition of the constitutional right of either House to change the provisions of the bill that are considered rules of the body at any time, in the same manner, and to the same extent as in the case of any other rule of the body.

Subsection (l)--sense of the Senate

Subsection (l) of section 3 states it to be the sense of the Senate that any funding reductions or sequestering of controllable expenditures implemented by Federal agencies as a result of the bill will be made uniformly and not disproportionately be made in the funding of programs targeted for rural and lesser populated areas.

Subsection (m)--report on revenues

Subsection (m) of section 3 will require the directors of OMB and CBO, and the Secretary of the Treasury, to jointly report annually to the President and to the Committee on Finance and the Committee on Ways and Means on the projected level of revenues that would be raised by increased and improved tax enforcement and collection involving audits, examinations, and other methods designed to eliminate tax cheating and increase revenue collections from tax evaders. The report would include an analysis of measures that could be implemented to increase voluntary compliance with tax laws, and an estimate of the level of increased expenditures for Internal Revenue Service enforcement and compliance efforts at which additional expenditures would not yield additional revenues of at least $2 of revenue for every $1 in expenditures. The report would be issued on an annual basis no later than the date on which the President submits a proposed budget for each fiscal year to Congress.

Subsection (n)--treatment of certain cost-of-living adjustments

Subsection (n) of section 3 provides that, during the time in which a sequester order under section 3 is in effect, any cost-of-living adjustment for Social Security will not count as income for purposes of determining supplemental security income payments or payments from any other programs that are offset as a consequence of cost-of-living adjustments for Social Security.

Subsection (o)--limits on the President's budget recommendations

Subsection (o) of section 3 will amend section 1105(c) of title 31 of the United States Code, which requires the President, in submitting his budget for a fiscal year, to recommend appropriate action to eliminate an estimated deficit. The amendment would prohibit the President--with respect to fiscal years 1987 through 1991--from recommending any action that would require--

(1) an increase in borrowing authority, or

(2) an increase in the Federal debt limit,

in an amount above the maximum deficit amount for the fiscal year involved.

Subsection (p)--OMB and CBO directors' reports

Subsection (p) of section 3 provides that, in preparing any report required for fiscal years 1986 through 1991 under subsection (d) of section 3, the OMB and CBO directors must--

(1) examine each contract with a total amount of budget authority in excess of $20,000,000 under which outlays will be made in the fiscal year involved to determine whether the contract includes provisions for adjusting outlays in the fiscal year under such contract as a result of inflation;

(2) examine any other Government activity that the directors consider appropriate under which outlays in the fiscal year will be increased as a result of inflation; and

(3) assume, in determining the total amount of outlays that will be made in such fiscal year, that the adjustments for inflation made in such contracts and activities will be made on the best available estimate of inflation for such fiscal year.

In the event that the directors are unable to agree on an amount of outlays with respect to any particular contract or activity, the directors would use the average of the amounts proposed by each of them with respect to the contract or activity.

Subsection (q)--Commodity Credit Corporation loans and guaranteed student loans

Subsection (q) of section 3 contains free-standing provisions that contracts under which the Commodity Credit Corporation (CCC), or entities providing Federal guarantees for student loans, agree to make entitlement payments will be deemed to be controllable expenditures for purposes of sequestration and subject to reduction under the sequestration order. This rule would apply only to contracts entered into after the sequestration order is issued, and the contract would have to explicitly provide for the reduction.

With respect to CCC operations, subsection (q) contains the following additional rules:

(1) all loan contracts for a crop of a commodity will be subject to the same terms; and

(2) noncontract CCC programs also will be deemed to be controllable expenditures and subject to reduction under a sequestration order.

Finally, subsection (q) contains a proviso relating to ensuring that all CCC programs are reduced uniformly under a sequestration order. The provision reads as follows:

> Provided further, That programs supported through the Commodity Credit Corporation shall be deemed to be the reduction in the level of commodity price support programs, supported through the Commodity Credit Corporation, shall not exceed a uniform percentage of reduction specified for those programs in the sequester order.

Section 4--Achille Lauro hijacking

Section 4 expresses the sense of the Senate relating to the *Achille Lauro* hijacking.

October 21, 1985

PROGRAMS INVOLVING AUTOMATIC SPENDING INCREASES
(CATEGORY 1)
AS DEFINED BY SENATE STAFF

Rail Industry Pension Fund (excluding limitation on administrative expenses)
Supplemental Security Income
Veterans' Pensions
Veterans' Compensation[1]
Civil Service Retirement (excluding limitation on administrative expenses)
Military Retirement
Foreign Service Retirement
Public Health Service Retirement
Coast Guard Retirement
Federal Judiciary Survivors Benefits
United States Presidents Pensions
CIA Retirement and Disability
Federal Reserve Board Employees Retirement System
Comptrollers General Retirement System
Tennessee Valley Authority (TVA) Retirement System
FECA (Workers's Compensation for Federal Employees)
Food Stamps
Child Nutrition
Supplementary Medical Insurance
National Wool Act
Black Lung Program
Special Benefits for Disabled Coal Miners
Hospital Insurance (excluding limitation on administrative expenses)

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[1] H.J. Res. 372 explicitly requires that Veterans' Compensation be treated as an automatically indexed program.

October 21, 1985

EXEMPT SPENDING
AS DEFINED BY SENATE STAFF

Outlays due to increases in program participation rates
Outlays from obligations incurred in prior years except contracts that can be modified
Offsetting receipts and collections
Defense claims
Payment to the Foreign Service retirement and disability fund
Foreign military sales trust fund
Exchange stabilization fund
Federal Deposit Insurance Corporation
Credit Union share insurance fund
Federal Savings and Loan Insurance Corporation fund (except limitation on administrative expenses)
Federal Housing Administration fund
Payments to copyright owners
BIA miscellaneous trust fund (Indian tribal funds)
Payments to health care trust funds
Railroad social security equivalent benefits account
Pension Benefit Guaranty Corporation fund (except limitation on administrative expenses)
Federal payments to the railroad retirement accounts
Employees life insurance fund
Unemployment trust fund (except administrative expenses)
Earned income tax credit
OASI and DI trust funds (except limitation on administrative expenses)
Payments to social security trust funds
Veterans' insurance and indemnities
Servicemen's group life insurance fund
Veterans' reopened life insurance fund
Service disabled veterans' insurance fund
National service life insurance fund
United States government life insurance fund
Veterans' special life insurance fund
Loan guaranty revolving fund
Salaries of judges
Coinage profit fund
Payment to the civil service retirement fund
Claims, judgments, and relief acts
Net Interest--All of function 900

EXCERPTS FROM
"CONTROLLABLE ACCOUNTS (CATEGORY 2)"
AS DEFINED BY THE STAFF OF THE SENATE BUDGET COMMITTEE

(1) INTERNATIONAL ORGANIZATIONS AND ASSISTANCE (Function 151)	
Department of Agriculture--Foreign Assistance Programs	
-- Expenses, Public Law 480	12 2274 0 1 151
(2) ENERGY SUPPLY (Function 271)	
(a) Department of Agriculture--Rural Electrification Administration	
-- Salaries and expenses	12 3100 0 1 271
-- Reimbursement to the revolving fund	12 3101 0 1 271
(b) Department of the Treasury--Financial Management Service	
-- Biomass energy development	20 0114 0 1 271
(c) Federal Financing Bank	
-- REA revolving fund	20 4230 0 3 271
-- REA, FFB	20 4231 0 3 271
-- Alternative fuels production, FFB (loan guarantees)	20 5180 0 2 271
(3) WATER RESOURCES (Function 301)	
Department of Agriculture--Soil Conservation Service	
-- River basin surveys and investigations	12 1069 0 1 301
-- Watershed and flood prevention operations	12 1072 0 1 301
-- Miscellaneous contributed funds (water resources)	12 8210 0 7 301
(4) CONSERVATION AND LAND MANAGEMENT (Function 302)	
Department of Agriculture	
(i) Soil Conservation Service	
-- Conservation operations	12 1000 0 1 302
-- Resource conservation and development	12 1010 0 1 302
-- Miscellaneous contributed funds (conservation and land management)	12 8210 0 7 302
-- Great Plains program	12 2268 0 1 302

(ii) Forest Service	
-- Construction	12 1103 0 1 302
-- Forest research	12 1104 0 1 302
-- State and private forestry	12 1105 0 1 302
-- National forest system	12 1106 0 1 302
-- Range betterment fund	12 5207 0 2 302
-- Acquisition of lands for national forests, special acts	12 5208 0 2 302
-- Acquisition of lands to complete land exchanges	12 5216 0 2 302
-- Operations and maintenance of quarters	12 5219 0 2 302
-- Other appropriations	12 9911 0 1 302
-- Forest Service permanent appropriations	12 9922 0 2 302
-- Miscellaneous trust funds	12 9973 0 7 302
-- Reforestation trust fund	20 8046 0 7 302

(5) RECREATIONAL RESOURCES (Function 303)

Department of Agriculture--Forest Service	
-- Land acquisition	12 5004 0 2 303

(6) POLLUTION CONTROL AND ABATEMENT (Function 304)

(a) Department of Agriculture--Agricultural Stabilization and Conservation Service	
-- Rural clean water program	12 3337 0 1 304
(b) Environmental Protection Agency	
-- Operations, research, and facilities	68 0100 0 1 304
-- Abatement, control, and compliance	68 0106 0 1 304
	68 0108 0 1 304
-- Buildings and facilities	68 0110 0 1 304
-- Salaries and expenses	68 0200 0 1 304

(7) FARM INCOME STABILIZATION (Function 351)	
(a) Department of Agriculture	
(i) Federal Crop Insurance Corporation	
-- Administrative and operating expenses	12 2707 0 1 351
-- FCIC fund	12 4085 0 3 351
(ii) Agricultural Stabilization and Conservation Service	
-- Salaries and expenses	12 3300 0 1 351
-- Dairy indemnity program	12 3314 0 1 351
(iii) Commodity Credit Corporation	
-- Temporary Emergency Food Assistance Program	12 3635 0 1 351
-- CCC Fund	12 4336 0 3 351
(iv) Farmers Home Administration	
-- Agricultural Credit Insurance Fund (ACIF)	12 4140 0 3 351
(v) Agricultural Marketing Service	
-- Milk marketing orders assessment fund	12 8412 0 8 351
(b) Department of the Treasury--Federal Financing Bank	
-- ACIF, FFB (loan asset sales)	20 4140 0 3 351
(c) Farm Credit Administration	
-- Revolving fund for administrative expenses	78 4131 0 3 351
(8) AGRICULTURAL RESEARCH AND SERVICES (Function 352)	
Department of Agriculture	
(i) Office of the Secretary	
-- Office of the Secretary	12 0115 0 1 352

(ii) Departmental Administration	
-- Standard level users charges	12 0117 0 1 352
-- Advisory committees	12 0118 0 1 352
-- Departmental administration	12 0120 0 1 352
-- Working capital fund	12 4609 0 4 352
(iii) Office of Governmental and Public Affairs	
-- Office of Governmental and Public Affairs	12 0130 0 1 352
(iv) National Agricultural Library	
-- National Agricultural Library	12 0300 0 1 352
(v) Extension Service	
-- Extension Service	12 0502 0 1 352
(vi) Office of the Inspector General	
-- Office of the Inspector General	12 0900 0 1 352
(vii) Agricultural Research Service	
-- Agricultural Research Service	12 1400 0 1 352
-- Buildings and facilities	12 1401 0 1 352
-- Miscellaneous contributed funds	12 8214 0 7 352
(viii) Office of International Cooperation and Development	
-- Scientific activities overseas (foreign currency program)	12 1404 0 1 352
-- Salaries and expenses	12 3200 0 1 352
-- Miscellaneous contributed funds	12 8232 0 7 352
(ix) Cooperative State Research Service	
-- Cooperative State Research Service	12 1500 0 1 352
(x) Animal and Plant Health Inspection Service	
-- Salaries and expenses	12 1600 0 1 352
-- Buildings and facilities	12 1601 0 1 352
-- Miscellaneous trust funds	12 9971 0 7 352

(xi) Economic Research Service	
-- Salaries and expenses	12 1701 0 1 352
-- Miscellaneous contributed funds	12 8227 0 7 352
(xii) Statistical Reporting Service	
-- Salaries and expenses	12 1801 0 1 352
-- Miscellaneous contributed funds	12 8218 0 7 352
(xiii) World Agricultural Outlook Board	
-- World Agricultural Outlook Board	12 2100 0 1 352
(xiv) Office of General Counsel	
-- Office of General Counsel	12 2300 0 1 352
(xv) Federal Grain Inspection Service	
-- Salaries and expenses	12 2400 0 1 352
(xvi) Agricultural Marketing Service	
-- Marketing services	12 2500 0 1 352
-- Payments to States	12 2501 0 1 352
-- PACA fund	12 5070 0 2 352
-- Miscellaneous trust funds	12 9972 0 7 352
(xvii) Packers and Stockyards Administration	
-- Packers and Stockyards Administration	12 2600 0 1 352
(xviii) Office of Transportation	
-- Office of Transportation	12 2800 0 1 352
(xix) Foreign Agricultural Service	
-- Foreign Agricultural Service	12 2900 0 1 352
(xx) Agricultural Cooperative Service	
-- Salaries and expenses	12 3000 0 1 352

(xxi) Human Nutrition Information Service	12 3501 0 1 352
-- Human Nutrition Information Service	
(xxii) Food Safety and Inspection Service	12 8137 0 7 352
-- Expenses and refunds, inspection and grading	
(9) MORTGAGE CREDIT AND DEPOSIT INSURANCE (Function 371)	
(a) Department of Agriculture--Farmers Home Administration	12 2071 0 1 371
-- Compensation for construction defects	12 4141 0 3 371
-- Rural housing insurance fund (RHIF)	12 4222 0 3 371
-- Self-help housing land development fund	
-- Miscellaneous expiring appropriations (mortgage credit, etc.)	12 9912 0 1 371
(b) Department of the Treasury--Federal Financing Bank	20 4141 0 3 371
-- RHIF, FFB (loan asset sales)	
(10) OTHER ADVANCEMENT OF COMMERCE (Function 376)	
Commodity Futures Trading Commission	95 1400 0 1 376
-- Commodity Futures Trading Commission	
(11) GROUND TRANSPORTATION (Function 401)	
Department of Agriculture--Forest Service	12 9973 0 7 401
-- Miscellaneous trust funds	
(12) AREA AND REGIONAL DEVELOPMENT (Function 452)	
(a) Department of Agriculture	
(i) Office of Rural Development Policy	12 0801 0 1 452
-- Salaries and expenses	

(ii) Farmers Home Administration	
-- Salaries and expenses	12 2001 0 1 452
-- Rural water and waste disposal grants	12 2066 0 1 452
-- Rural community fire protection grants	12 2067 0 1 452
-- Rural Development Insurance Fund (RDIF)	12 4155 0 3 452
-- Miscellaneous expiring appropriations (area and regional development)	12 9912 0 1 452
(b) Rural Electrification Administration	
-- Purchase of Telephone Bank stock	12 3102 0 1 452
-- Rural communication development fund	12 4142 0 3 452
-- Rural Telephone Bank	12 4231 0 3 452
(c) Department of the Treasury--Federal Financing Bank	
-- RDIF, FFB (loan asset sales)	20 4155 0 3 452
(13) DISASTER RELIEF (Function 453)	
Department of Agriculture--Agricultural Stabilization and Conservation Service	
-- Emergency Conservation Program	12 3316 0 1 453
(14) CONSUMER AND OCCUPATIONAL HEALTH AND SAFETY (Function 554)	
Department of Agriculture--Food Safety and Inspection Service	
-- Salaries and expenses	12 3700 0 1 554
(15) HOUSING ASSISTANCE (Function 604)	
Department of Agriculture--Farmers Home Administration	
-- Rural rental assistance payments	12 2002 0 1 604
-- Miscellaneous expiring appropriations (housing assistance)	12 2004 0 1 604
-- Mutual and self-help housing	12 2006 0 1 604
-- Very low income housing repair grants	12 2064 0 1 604
-- Rural housing preservation grants	12 2070 0 1 604

(16) FOOD AND NUTRITION ASSISTANCE (Function 605)

Department of Agriculture

(i) Food and Nutrition Service	12 3502 0 1 605
-- Special milk program	12 3503 0 1 605
-- Food donations program	12 3508 0 1 605
-- Food program administration	12 3510 0 1 605
-- Women, infants and children programs (WIC and CSFP)	12 3512 0 1 605
-- Women, infants and children programs (WIC and CSFP)	12 3550 0 1 605
-- Nutrition assistance for Puerto Rico	
(ii) Agricultural Marketing Service	12 5209 0 2 605
-- Section 32 funds	

(17) OTHER GENERAL PURPOSE FISCAL ASSISTANCE (Function 852)

Department of Agriculture--Forest Service	12 9921 0 2 852
-- Forest Service permanent appropriations	

EFFECTS OF BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 ON U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

WEDNESDAY, JANUARY 29, 1986

House of Representatives,
Committee on Agriculture,
Washington, DC.

The committee met, pursuant to call, at 1:10 p.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Brown, Rose, Bedell, English, Panetta, Huckaby, Glickman, Whitley, Daschle, Stenholm, Volkmer, Tallon, Evans of Illinois, Thomas, Olin, Penny, Stallings, Bruce, Madigan, Jeffords, Hopkins, Stangeland, Roberts, Emerson, Morrison, Gunderson, Evans of Iowa, Chappie, Franklin, Combest, and Schuette.

Also present: Representative Smith of Nebraska.

Staff present: Phillip L. Fraas, counsel; Charles Hilty, minority staff director; John E. Hogan, minority counsel; Mark Dungan, minority associate counsel; Glenda L. Temple, clerk; Bernard Brenner, Anita R. Brown, Charles Rawls, Kim Schnoor, Courtney Pastrick, Robert A. Cashdollar, Eugene Moos, Robert J. Fersh, Brenda B. Hatton, Heidi Pender, Stephen T. Adams, Susan Adkins, Carol Ann Dubard, Lynn Gallagher, Stephen R. Kerr, Rick Kirchhoff, Paulette Zakrzeski, Gary R. Mitchell, and Mike Neruda.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order.

I apologize for the delay. I was detained on the Senate side with some of the problems that we have encountered after passage of the farm bill.

Before we begin, let me say that I think it would be fitting and proper in behalf of our committee and the House to express our sentiments on the events of yesterday and to extend in behalf of our committee our sympathy and condolences at the terrible loss to the families of the seven astronauts and at the loss that our country has suffered of seven great citizens and the delay it may cause to a program which most agree is a worthwhile and positive program for us to carry out, not only for the national well-being but for the benefit of mankind. I did not want to let the opportunity pass on behalf of our committee and all the members to express our sentiments to the families especially and to all who are concerned about our terrible loss.

To the members of the administration who are here, we appreciate very much your attendance. We find ourselves in a very difficult situation with respect to the so-called Gramm-Rudman-Hollings Deficit Reduction Act. This is not a forum or a hearing to discuss the merits of that legislation. That is the law. We are not here to in any way argue the pros or the cons. But rather, we find ourselves hearing many rumors, not having information. Many of the people in agriculture in rural America and agribusiness have expressed great concern. This is the reason that we have invited you here.

Admittedly, I think that it is fair to say, with due respect, you may have part of the same problem, in that information hasn't seeped down to you, and the blame lies somewhere else. But to the extent that you can give it to us, we would like to get as explicit information as we can.

Let me explain the situation. In my area of south Texas we were ready to plant cotton 30 days ago. We have no cotton program announced. There was an inadvertent mistake on cross-compliance that is causing havoc and we are trying to correct at this time. This is one of the reasons that I was late. We have a problem with bases and yields. In many instances, when the conferees agree in principle, when we gave our word this is what we intend, then the bill is written differently or the interpretation comes out differently from cotton to feed grains to hops. We thought we had reached an agreement on hops, and lo and behold, it is not being honored by the Department for some technical or legalistic reason, in spite of the fact that we all gave our word that this was the case.

We hear stories that programs funded entirely by user fees such as tobacco inspection will have their spendings reduced, putting a tax on producers so that the Government can run a profit at their expense. We hear that cuts on mandatory meat inspection may force the operation of packing plants down to 7 hours a week. I use those as an example.

We appreciate your being here. Again I repeat, it is not our intention whatsoever to discuss the merits pro and con of Gramm-Rudman. I repeat, that is the law and we have to abide by it. But we in this committee have been very responsible. We have made reductions to the point where it hurt in the past 5 years. Now between $30 and $40 billion—if you include the savings that we had to make to comply with the President's request on our farm bill, to comply with the reconciliation, we added about another $15-plus billion in savings, which, added to our previous $25 billion, puts us somewhere in the $40 billion savings in 5 years. We have been very responsible. But, unfortunately, Gramm-Rudman is going to cause further reductions. We find no one in agribusiness or agriculture who is unwilling to share the equal load.

Our concern is that there will be inequity and inequality. In order to address that issue, we need to know. And that is where we hope you can assist us, Mr. Dewhurst.

We welcome you. We would appreciate any little shred of information you can bring us.

[The prepared statement of Mr. de la Garza follows:]

OPENING STATEMENT OF CHAIRMAN DE LA GARZA

Mr. Dewhurst, I want to welcome you and your other Department colleagues on behalf of the Committee and myself. We appreciate your appearing before us on short notice.

We have asked you to come because we, at the Committee offices and Members' offices, are increasingly facing questions about the Gramm-Rudman-Hollings deficit reduction procedures now in effect. I am getting calls from South Texas where planting is already behind where it could be if farmers knew exactly what they were facing for the 1986 crop year. Mr. Dewhurst, we can't answer these questions, beyond telling them all program spending will have to be reduced 4.3%, equally among all activities. We need your guidance.

We know that details of the sequester order are not due until February 1, a day and a half from now, but I am confident that you have completed enough work to give us substantial answers, certainly more than during the hearing last November. Then, the Assistant Secretary for Economics essentially told us that reducing deficits was good for farmers, no matter how much money we had to take from them.

Barely a month ago, Congress passed and the President signed the Food Security Act of 1985. That Act was carefully crafted to address a deteriorating farm economy within the constraints of a budget resolution that demanded $8 billion savings. It also provided new credit authorizations, export programs, and a conservation reserve program to meet our export competition, and it reauthorized our agricultural research, education, and services programs.

Now what is going to happen to the Act that took Congress nine months to develop? We knew further spending reductions would take place when we passed it, but we must know now how these reductions will be effected. We hear stories that programs funded entirely by user fees, such as tobacco inspection, will have their spending reduced; putting a tax on producers so that the government can run a profit at the expense of people who need to sell their product to stay in business. We hear that cuts on mandatory meat inspection may force the operation of packing plants down to seven hours a day. This is another attack on farmers' income that will reduce the consumption of meat.

It is reports like these that require this hearing. We must know what the Department will do within its broad discretionary powers under sequestering to the programs we have just passed.

-- What will be done with the 1986 commodity programs?

-- Will target prices and loan rates actually be reduced and specified in the contracts producers sign when they enroll in acreage reduction programs? Or will there be an indirect reduction in these price support levels because of low disbursements of deficiency payments and commodity loans? Or will all of the reductions come out of deficiency payments?

--How will you handle programs like the conservation reserve and the dairy whole herd buyout that are based upon producer bids and are expected to decrease the cost of commodity price support?

-- What about agricultural research and service programs that are mostly salary expenses? How will these reductions be made if pay cannot be cut?

These are the questions we must have answers to now.

We are facing this new budget process at a time when many American farmers are in trouble. We all know how serious the economic situation was last year in many areas, and especially in the Midwest. We know that while we can hope for some improvement in the future, economists are not predicting any substantial gains this year and this Committee will be watching the situation closely...beginning with a hearing next week before Mr. Jones' subcommittee on the credit situation.

What this adds up to is that producers need to know, as quickly as possible, what kind of an economic safety net they will have this year. And for the longer run, we need to begin finding out what the new budget process can mean to farm programs in 1987 and later years.

STATEMENT OF STEPHEN B. DEWHURST, BUDGET OFFICER, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY THOMAS CONWAY, DEPUTY ASSISTANT GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL; DAVID HALL, DIRECTOR, BUDGET DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE; DWIGHT CALHOUN, DEPUTY ADMINISTRATOR, FINANCIAL AND ADMINISTRATIVE OPERATIONS, FARMERS HOME ADMINISTRATION; WILLIAM GARDNER, DIRECTOR, BUDGET PLANNING AND ANALYSIS, SOIL CONSERVATION SERVICE; AND DONALD HOUSTON, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Mr. DEWHURST. Thank you, Mr. Chairman. My associates and I are privileged to be here today to talk with the committee about what is specifically the implementation of the fiscal year 1986 sequester of funds under the new Gramm-Rudman legislation.

Consistent with our discussions with committee staff, we provided a brief statement and some tabular material which we hope will perhaps clear up some of the more basic misunderstandings about the Gramm-Rudman legislation. Of course, we are going to do our level best to answer your questions to the best of our ability.

It seems to me that it might be useful for me to take just 2 or 3 minutes of your time to make about four points about this legislation that are essentially answers to the literally hundreds of questions we have been getting from the press and from staff and so forth.

One is the question about the size of the cut in USDA programs compared to the cuts in other departments of Government. The USDA reduction in outlays required under the sequester order will be just short of $1.3 billion. As you know, the cut for the entire Government is $11.7 billion, and the cut for nondefense agencies is about $6 billion. So, our $1.3 billion reduction compared to a $6 billion total for nondefense programs seems to be a very large share of that figure.

The reason that is that way becomes very clear when you look at the Governmentwide calculations that led to the sequester order, because what they show and what is shown in one of the tables we have submitted is that the amount of money in the Federal budget available for the so-called across-the-board sequester in nondefense programs is $105 billion, a relatively small proportion of the total spending in the Federal budget. And we have $29 billion that are subject to the sequester. So, the Department has a fairly large share.

The second question that we have been getting repeatedly has to do with how much flexibility the Department or the Secretary of Agriculture has in implementing the reduction. The sequester order, as we understand it, is very specific. That is, it provides a set of numbers for the Department on an account-by-account basis. We have instructions consistent with the Gramm-Rudman legislation and consistent with our appropriations bill which require us to try to implement those reductions in good faith throughout the Department essentially on a pro rata basis. That is, we are to allocate the cut down to all of the individual projects and activities shown in our annual budget justifications and, in effect, right down to individual field locations, watershed projects, and so forth, so that the burden is shared as equally as possible among all the beneficiaries of our programs.

We have provided in the material attached to our statement a table which shows you the cuts in spending authority for each of our agencies. But as I have said, we have got to carry that pro rata cut down even further to a much lower level of detail throughout the Department.

The third fact has to do with the share of the reduction that is applied to the Commodity Credit Corporation. That reduction is about $824 million in Federal outlays. It comprises, therefore, a very substantial percentage of the $1.3 billion in the Department that has to be reduced. That, too, is a mechanical calculation. It is 4.3 percent of the joint CBO-OMB estimate of outlays that the Government will generate to carry out the 1986 crop programs under the new farm bill. That figure is about $18.9 billion.

We have been working to determine how to implement that reduction through all the programs and all the crops. I would be less than candid if I did not tell you that that is not an easy undertaking. We are attempting to implement both the new farm bill and the Gramm-Rudman legislation simultaneously. The Gramm-Rudman reduction is taken from a figure which splits the difference between OMB and the Congressional Budget Office. It is, therefore, not a figure that is anybody's real estimate as to what these programs will cost. It is just the way the law works. You split the difference. But we are in a position of trying to reconstruct the budget, understand the numbers that apply to all the programs, and then apply the reduction equitably throughout the system.

We do not yet have that done. In fairness to the policy officials of the Department, I must tell you that they have not yet been presented with these problems, because there have been staff people in the Department working night and day to try to work their way through both bills, understand its impact, the legal problems, what can be done, what can't be done. We hope to get a resolution of all the issues in the next very few days, but as yet we do not have all the problems solved.

The last thing I would want to make sure the committee is aware of is that what the Gramm-Rudman legislation really does is cut spending authority in Federal programs. That is, one saves cash outlays through reductions in spending authority. The term spending authority, as you know, is defined very broadly in the bill and has been defined to include authority even where it is generated through user fees and other receipt-producing activities in the Government. So, it is absolutely true, as you said, Mr. Chairman, that there are some reductions under this legislation in fee-funded activities.

That is a Government-wide decision. It is our understanding that it was ultimately agreed to between OMB and CBO and the General Accounting Office. And those numbers are also laid out in the sequester order that those people are producing. So, it is not something about which we have very much discretion; we simply have to find ways to meet all these requirements with the least possible disruption.

With that, Mr. Chairman, we are here to help you to the best of our ability. We will do whatever we can to answer your questions.

[The prepared statement of Mr. Dewhurst appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Let me ask you, you said that of the $105 billion mandated reduction, $29 billion would be allocated to agriculture?

Mr. DEWHURST. Yes, sir; that is simply the determination—simply add up the budget numbers for all the programs that are subject to the across-the-board cut. And we happen to have $29 billion of that total.

The CHAIRMAN. That is one of my concerns about equity or equality. Again, without getting into the merits, the total budget for agriculture is around 3 percent of the total budget of our Government. Yet we are asked now to share about 27 or 28 percent of the cuts, when out of the total budget we are only 3 percent.

I know that many of the members have individual questions. We will follow the same procedure that we have as to time of arrival.

Let me ask, the ones with the check were here when we started?

The CLERK. Yes, Mr. Chairman.

The CHAIRMAN. The Chair would go from right to left, one and one, on time of arrival, if you have any questions.

Mr. Madigan.

Mr. MADIGAN. Mr. Chairman, I was the last one in the room. I will follow the order of people questioning in the order in which they were in attendance.

The CHAIRMAN. Thank you very much.

Mr. Rose.

Mr. ROSE. Thank you, Mr. Chairman.

With respect to the sequestration of CCC funds, could you please tell me whether or not USDA intends to cut price support levels for peanuts or cut quota for peanuts or propose a combination of both quota cuts and price support cuts or is considering other alternatives? In other words, what mechanism or means would you use to limit price support money to farmers? Would you provide them with notice of the probability of reduction of price support moneys?

Mr. DEWHURST. While I cannot tell you what we intend to do, because those decisions have not yet been made, I will tell you, however, what the fundamental choices are. One is to announce the programs and run them at all the prescribed rates in the law; that is, make no explicit reductions in loan rates or target prices or any of the other requirements of the programs. But in the end, there would, in effect, have to be a discounting procedure so that all the checks issued under the various programs would, in effect, end up with less money in them, 4.3 percent or thereabouts, depending on how the cash-flow worked.

The other way to do it is to go——

Mr. ROSE. Let me stop you right there. That could be useful because it would have probably less effect on the market, wouldn't it?

Mr. DEWHURST. Well, that's one of the factors we are considering.

Mr. ROSE. All right. Go ahead.

Mr. DEWHURST. Yes, sir; the other way to do it, of course, is to go through each and every program and try to make individual changes in each and every program. And then you are confronted with two problems, at least two. One is, you have to end up with a requisite reduction in outlays. And the other is, you have to be equitable to all the programs.

So, I cannot tell you which way we will come out, but those are the kinds of choices we are trying to deal with.

Mr. ROSE. I like your first answer better.

The CHAIRMAN. Will the gentleman yield at this point?

Mr. ROSE. Yes.

The CHAIRMAN. I know the legislation is explicit, sequestration, division of powers, et cetera. But are you able to tell us if items would be negotiable, could our committee work with you to try and work together to see what we can do. The expertise and the responsibility of input from the people are here, basically, not in the executive. Do you have authority to let us know if we could work together to work out some acceptable, at least more equitable, provisions in some items?

Mr. DEWHURST. Perhaps. I mean, one of the problems in Gramm-Rudman is that we are not entirely sure in every case what the Department's legal flexibility is. Presumably, when we come up with proposals for handling all of these reductions, we are going to have to make sure that the OMB and the CBO and the GAO and the others that are running the sequestration process do not adamantly disagree with what we are doing. To the extent there is flexibility and decisions to be made, certainly that will become apparent during the February process, during which the Congress has to consider whether it wants to let the sequestration order go into effect or make some change in the law that would have things come out differently.

The answer to your question is yes to the extent that there is that kind of flexibility.

The CHAIRMAN. I thank the gentleman. The Chair would make up his time if he needs to.

Mr. ROSE. Thank you. I will be brief in finishing up.

For example, in peanuts there are some who are urging us that you should cut the quota rather than the price support. There may be a difference of opinion even among our committee on that, but if we could have some input into that as those decisions are being made, it would be helpful. We are trying to arrive at the same result.

As to tobacco, does the fact that the tobacco program is the only commodity program with a no-net-cost provision, does that affect any reductions that you may consider in CCC moneys for that program?

Mr. DEWHURST. Yes, it is a factor. I mean, what we are trying to do is make an equitable reduction from the net outlay cash flow estimate for each program.

Mr. ROSE. All right. But going back to where you started on peanuts, one idea might be that you would give a check to the farmer for 100 percent of what the law allowed. Say he was entitled to $100, you would give him $100 but there would be a little footnote at the bottom that says: this check will bounce after it gets to the Gramm-Rudman figure. I mean, I am being cute as to how I describe it. But you would somehow discount the check——

Mr. DEWHURST. Yes, sir. When the farmer signs up for the program or when the county office works with the farmer, they would have to make sure that he understood what was going to happen. And what ultimately would happen is, whatever check he would receive would end up having somewhat less money in it.

Mr. ROSE. Will the user fee programs, specifically the inspection and grading of tobacco, be subject to reductions under Gramm-Rudman? It is my understanding that USDA intends to cut budgets for these programs, yet the farmers are required to pay an assessment to cover all costs associated with these programs. Does that mean that the farmer will still pay the same high price but get less service because of Gramm-Rudman?

Mr. DEWHURST. Well, the legislation does apply to user fee funded programs. That is very clearly indicated in the order that the GAO and the others have signed. Essentially, what it means literally is that there is a limit on the amount of service that we can provide. That is, we can take money in and spend it up to a certain level.

Mr. ROSE. In other words, the farmer is paying for a grading service. Essentially, will he pay the same thing in 1986 he paid in 1985 but get 11 percent less service? How will that work?

Mr. DEWHURST. I don't think we'll charge—you know, we will not charge him for service he does not receive.

Mr. ROSE. All right.

Mr. DEWHURST. So far as the farmer knows, he will pay the same rate for the same service. But ultimately there will be a limit on how much service we can provide.

What you have to do under Gramm-Rudman is take a hard look at your workload. To the extent that you project that you are going to have a heavier workload than the Gramm-Rudman numbers indicate, we're going to have to work with the OMB and the CBO and the Congress, the people who have ultimate authority, to see if those problems can be avoided.

Mr. ROSE. Thank you.

Mr. Chairman, I have no further questions.

The CHAIRMAN. I thank the gentleman.

Mr. Jeffords.

Mr. JEFFORDS. Thank you, Mr. Chairman.

I want to talk about dairy. I am going to read a statement about an agreement that we had with the administration with respect to how to handle the March 1986 cut. I hope that you will listen very carefully. If you have any problems with any parts of it, I would like to know.

The purpose of Gramm-Rudman is to reduce the deficit. The law sets targets that must be reached during specific periods unless Congress acts to reach that fiscal year's goal. Any sequestration action is limited to the relevant fiscal year.

In the case of fiscal year 1986, the sequestration requires a 4.3-percent reduction in program costs across the board. I understand that CCC costs must be reduced by $824 million. Since the dairy program is projected to account for 10 percent of the commodity program cost, I believe I am correct in assuming that a reduction of $80 million or thereabouts must be made in price support outlays, or the net cost of the dairy program, during the rest of this fiscal year.

The dairy program established by the 1985 farm bill uses two methods to reduce program costs. One is a temporary assessment of 40 cents per hundredweight for the last half of this fiscal year. The other is price cuts. The only method authorized to reduce program costs is fiscal 1986, however, is the assessment.

How USDA should handle Gramm-Rudman was discussed extensively by those of us negotiating the dairy provisions of the farm bill. The impact of the March 1 Gramm-Rudman requirement was of deep concern. Given the conferees' focus on preserving farm income, we discussed the fact that an assessment would have less impact on producer income than a price cut because a smaller assessment would do the same job as the larger price cut.

The Secretary and the conferees therefore agreed that, for fiscal year 1986, the net savings would be made by levying an assessment of up to 10 cents a hundredweight, to be collected during the period of March 1 through the end of the fiscal year, September 30, 1986. It was to accommodate this expected additional assessment that the 50-cent assessment that the House dairy bill contained was in conference reduced to 40 cents. This agreement was then agreed to by representatives of the dairy industry.

Believing we had an agreement as to 1986 and in order to avoid problems about later price cut potentials in Gramm-Rudman, I tried in the conference committee to outline a method for handling price cuts which might be imposed by Gramm-Rudman in later years, 1987 and beyond, but was strongly opposed.

That the agreement for the March 1 Gramm-Rudman requirement was a wise one is now readily apparent. It is the only method that will, with any certainty, reduce the net expenditures for the dairy program by the required $70 to $80 million. The impact on farmers will be much less than the much larger price cut that would be required to achieve the same level of savings. The temporary nature of the assessment would not disrupt the market for manufactured products or the price of milk. Since this Gramm-Rudman action will terminate on September 30 and the 25-cent price cut ordered by the farm bill does not take place until January 1, 1987, prices could well jump up significantly for an interim 3-month period.

It was a mutual understanding of the conferees that no mention of Gramm-Rudman would be made in the farm bill. Thus, this agreement was not placed within the bill. A letter outlining this agreement has been forwarded to the Secretary by the House and Senate conferees who negotiated the dairy provisions with the administration.

I am setting forth this understanding for two reasons. First, I realize that Secretary Block, with whom we made the agreement, is leaving. With all the confusion that such a change brings about, I am concerned that the agreement may not have been articulated to the Gramm-Rudman policymakers at the Department or OMB.

Second, I have heard rumors that OMB has directed the Department to meet the requirements of Gramm-Rudman by a price cut and that no other option is to be considered.

Incidentally, I first heard this rumor from the Vermont Democratic Majority Leader of our Senate and, therefore, immediately discounted it. [Laughter.]

However, since then I have had reason to believe that this is indeed the case.

Now, I have some questions. First of all, are you aware of the agreement made by the Secretary and the dairy conferees that the temporary assessment was to be used to handle the first Gramm-Rudman cut? Were you aware of that agreement?

Mr. DEWHURST. No, sir, I am not.

Mr. JEFFORDS. OK. If the answer is no, will you consider it and, if not, why not?

Mr. DEWHURST. Well, when we present—let me just say two things. One, you are correct in the basic figures that you quoted in your statement, that the cut, the 4.3 percent, applied across-the-board yields a 4.3-percent reduction in net outlays for the dairy program. And you are correct that that net outlay reduction is achievable either through a change in the price support rate or through a change in the assessment.

To the extent that there is an agreement, and I have no reason to doubt that our policy people are aware of it and will know about it when we present the options to them, I am sure they will try to comply if Gramm-Rudman provides enough flexibility. I have not received any instructions from OMB as to how we are to achieve these cuts on a program-by-program basis. They are waiting for the analysis to be done, just as our own policy people are. So, if there have been some instructions, the only thing I can tell you is I do not have them at this point.

Mr. **Jeffords**. I appreciate that answer, but I can asssure you that I would think it would be very wise to implement the agreement made with the Secretary. I think it is incredibly important for the many reasons that I have stated, and that it is the most logical and the best way to do it.

I understand my time is up. I will be looking with deep interest as to what is forthcoming. Thank you.

The **Chairman**. I thank the gentleman.

Mr. Bedell.

Mr. **Bedell**. Mr. Dewhurst, if I understood you correctly, in terms of deficiency payments, you would leave the program as it is. If a farmer was entitled to payment of $1 a bushel, instead of getting a dollar check, he would get roughly 96 cents. Is that what we can expect to happen? Is that correct?

Mr. **Dewhurst**. Well, I cannot predict what my policy people would do, because we have not asked them that question. But that is one option we are looking at. It seems from an administrative point of view to be the easiest one to operate and the clearest one for many of our producers——

Mr. **Bedell**. In any event, I presume the 4 percent reduction will apply to the amount of money the farmer gets in terms of a deficiency payment.

Mr. **Dewhurst**. Yes, sir.

Mr. **Bedell**. In regard to loan rates, when we had the Department before us before on loan rates, they said they didn't know whether lowering loan rates or raising them would reduce costs to Government. If the problem is to reduce cost to the Government, do you have any further information in regard to what can be expected as far as loan rates are concerned?

Mr. **Dewhurst**. Well, I can tell you this. The Gramm-Rudman sequester order does not just indicate reductions in outlays. It also indicates reductions in spending authority. And loan levels are defined as a type of spending authority that is subject to the Gramm-Rudman reduction. So, when you look in the document that the CBO and the OMB published, you will find a figure next to CCC as a loan limitation. So, the Gramm-Rudman legislation in the sequester order clearly says that the Department has to do something to hold down the level of loans that it makes.

It is arguable just how much one saves in outlays when one reduces loan rates, and we understand that. There may be some saving because as a technical matter you are reducing your exposure to loss through defaulted loans or whatever. But essentially you don't save a lot of outlays in CCC by cutting loan rates unless the amount of forfeitures is high. But it is clear from the Gramm-Rudman legislation and the information we have been given by the agencies that are monitoring that that loans may also be reduced or checks for loans may be subject to some kind of discount.

Mr. **Bedell**. But you are really not reducing your exposure because whenever you lower the loan you have to make up the amount in deficiency payments. So, if you lower the loan by a penny, you increase the deficiency payment by a penny. Therefore, you are not achieving any savings. Isn't that correct?

Mr. DEWHURST. Well, you see, you're right. If you go through the programs, as we said was one of the options, and lower target prices and lower loan rates, you don't necessarily save any outlays. But if you leave both rates at the same place and discount all the checks by a set percentage, you do save outlays.

Mr. BEDELL. No argument about that. And so you do that. We're not arguing about the deficiency payment.

Mr. DEWHURST. Yes, sir, I understand.

Mr. BEDELL. You do that. Then you have to decide whether you are going to lower loan rates or not. And if you lower loan rates, then you save the amount of money that you loan, but you increase the amount of money that you are going to pay in deficiency payments because the legislation says it's the difference between target price and loan rates if the market is below the loan. Is that not correct?

Mr. DEWHURST. One of the ways we are talking about implementing the legislation is not that way. One of the ways we are talking about implementing Gramm-Rudman is to leave both the loan rate and the target price as it is.

Mr. BEDELL. Oh.

Mr. DEWHURST. You see, and then you discount both checks. So, you don't increase your deficiency payment by reason of the reduction you have made in the loan payment, because you have run the program on the same two numbers that you had from the beginning, the farm bill numbers.

I know it's hard to understand, and I may not be doing a very good job of explaining it——

Mr. BEDELL. No, I am afraid you are——

Mr. DEWHURST. But it really does work that way——

Mr. BEDELL. That's the thing that worries me. I am afraid you are.

Mr. DEWHURST. But again let me emphasize that's not a decision. We are not decisionmakers. All I am telling you is the kind of things our policy people have to look at in the next couple of days.

Mr. BEDELL. When do you expect to get this information out to our farmers? The chairman has already indicated the problem he has. His farmers need to know what to do, and so on. Are you just delaying so that you can cut it under Gramm-Rudman? My understanding is that if you announced the program now, our farmers would not be subject to the Gramm-Rudman cuts in 1986.

Mr. DEWHURST. Well——

Mr. BEDELL. That's correct, isn't it?

Mr. DEWHURST. No——

Mr. BEDELL. If you went with the program now because of the way the legislation reads, our farmers would be protected for this season. Is that not correct?

Mr. DEWHURST. It is not clear to me that that is true, no, sir. It seems to me that the ultimate question comes at the time of sign——

Mr. BEDELL. You better read the law, because at least that's what everybody tells me.

Mr. DEWHURST. All right, sir.

Mr. **Bedell**. If the program is in place before the sequester order comes, the cuts would not apply to 1986.

Obviously you are delaying so that you will be able to hit the farmers harder. And I guess it's not just a question of how bad they will get hit. If they're going to get hit, they would like to have it as soon as possible so they have some chance of straightening out their problem.

Mr. **Dewhurst**. We hope to have decisions made in the next very few days.

Mr. **Bedell**. Will it be announced when the decision is made?

Mr. **Dewhurst**. Yes, sir.

I can only tell you that there are a lot of people working very hard to answer all these questions. I know that it is frustrating. I would love to have the answers to all these questions.

Mr. **Bedell**. It is your expectation, if I understand you, that when the decision is made, which you expect to be within the next few days, then it will be announced, and farmers will be given an opportunity to sign up at that time for the program?

Mr. **Dewhurst**. Yes, sir.

Mr. **Bedell**. Thank you.

The **Chairman**. Mr. Roberts.

Mr. **Roberts**. Yes, Mr. Chairman, thank you. I want to thank you for holding these hearings. We had hearings on this matter several months ago. We are having hearings today. There seems to be a lot more interest. I wonder why, why indeed.

I know you told us that ours is not to reason why; ours is simply to do or die, and ask these folks here what the details are as to how we are going to live under this particular law. But I would, with your indulgence, sir, want to state for the record that we got mugged as we went through the farm policy park. And I not only have a glimpse of those who did the perpetrating, I have got their tag numbers; and they are not sitting down here. We have returned to the scene of the crime, if you will.

It is not my intent to put anybody up on the auction block in regards to their vote, but I do want to say for the record that I voted against this turkey. The blunt fact of the matter is we exempted 75 percent of the budget. We left 25 percent on the chopping block, and agriculture is on the chopping block.

This committee all last year went through a farm bill gauntlet. We, heels dragging, noses held, agonizing, discussing and cussing, finally got a bill. We forged a bill.

I guess my question is, did those who protested too loudly all throughout that process realize with Gramm-Rudman what we were doing, what we were doing was precisely to the USDA budget that Mr. Stockman first proposed, even worse?

Now, the question has been raised by my colleague from Iowa, are the farmers exempt? They should sign up to be exempt from Gramm-Rudman. How can they sign up when we don't have all of the details with a proven yield, with the acreage base, and with the cross-compliance? We are working on emergency legislation right now of a technical nature.

I don't think we can do much for 1986. I think we are just going to have to live with it and bite the bullet. My questions are more in regard to 1987 and what will be coming. I can tell you, Mr. Chairman, and all the rest of my colleagues I think by this bill, I think by this law we have decimated, we have decimated the integrity and the intent and the purpose of this farm program in terms of farm income protection.

We have 75 percent of this committee voting for Gramm-Rudman, and doubtless these same folks are now in the business of asking you people down here, what are the details? And Mr. Dewhurst doesn't know. He has got his legal beagles working on it. He will hope they come up with the answers. I hope, as the chairman has suggested, we can work together. But really, we are asking them questions and putting them on the hot spot for following the letter of the law that we passed. And I use the editorial we. The monkey's on our back, not theirs.

[The prepared statement of Mr. Roberts follows:]

STATEMENT BY
CONGRESSMAN PAT ROBERTS
HOUSE AGRICULTURE COMMITTEE
JANUARY 29, 1986

Mr. Chairman:

Thank you for calling this hearing. We held a hearing on Gramm-Rudman last fall, but there seems to be a lot more interest here today...I wonder why. Why indeed!

I suspect that those who voted for Gramm-Rudman now wish they could put asunder what they joined together. I want to say on the record that I am a strong supporter of a balanced budget, believe as my colleagues and virtually everyone in my district that the deficit is the number one problem we face in America today. My voting record will back me up on that score. I have jumped on many a spending bill sword. I also voted against Gramm-Rudman.

The blunt truth of the matter is that Gramm-Rudman exempts 75% of the budget and puts the remaining 25% on the chopping block. Everytime a program was exempted, the burden fell heavier on agriculture. If the pain were not so severe, this situation would almost be amusing. Last spring, President Reagan and Budget Director Stockman sent a farm bill to Congress. It was immediately labeled by every member of this committee as draconian and ridiculed. I believe the term I used was Dead on Arrival.

This Committee spent all last year going through a farm bill gauntlet, heels dragging, noses held, agonizing, discussing and cussing. But, forge a bill we did, with the battle cry freeze target prices, protect farm income. Did those who protested so loudly realize that with Gramm-Rudman we were doing precisely to the USDA budget what David Stockman tried and failed to do?

Some perhaps thought we had protection for farm contracts entered into for the 1986 crop year. But, we delayed the farm bill and signup does not take place before February 1, and that also just happens to be one of the crucial deadlines for Gramm-Rudman. The probability of having these contracts entered into before the sequester was improbable at best.

So what do we have? We have 75% of this Committee voting for Gramm-Rudman, and doubtlessly those same folks will be in the business of browbeating the Department here today for following the letter of the law they passed. Mr. Chairman, I love this Committee and respect all of our members, but that is demagoguery at best.

Let us not browbeat the Department. The monkey is on our backs -- not theirs. Let us instead revisit Gramm-Rudman and our respective party leadership and put everything we took out and exempted back under Gramm-Rudman. I don't know of any farmer I visited with over the break who was not willing to sacrifice, bleeding as we are, in order to reduce the Federal deficit. It's just that everyone should shoulder that responsibility.

Mr. ROBERTS. I would like to ask the question of anybody, and if counsel on our committee would have that answer: what if we went back and we revisit with our party leadership on both sides and put all of the exempted programs back into Gramm-Rudman, including Social Security, excepting the interest on the national debt, what would be the budget cut for agriculture then?

Mr. DEWHURST. If you put all the exemptions back in, you would put about $483 billion in Federal spending into the pot for cuts. That would essentially triple the amount of money available for the reductions. So, it would—quick calculation—reduce the 4.3-percent to something under 2 anyway.

Mr. ROBERTS. I don't know of any farmer that I met with over the break that does not want to do his or her part in regard to sacrifice on the budget deficit. I heard that over and over again: let's go back, revisit it, let's put it all back in, let's make it across the board. Everybody's in the same bath tub with the same brillo pad. Now, that may be impossible around here, to get enough votes to do that. And I should probably yield to my good colleague and friend from California on the Budget Committee to determine if that's possible. And he knows the answer and I know it. I don't think we are going to do it in terms of February. And, no, I don't think it's the Department's problem in regard to getting all the details up here in time so that farmers can sign up as of February 6 or 7 or 8 during one month's time of all of the questions they have in this farm bill especially with acreage bases and proven yields and cross-compliance and all of that. So, let's don't blame the Department.

As I say, 1986 we might as well bite the bullet and live with it or run for cover or whatever. What do you see down the road for 1987 in regard to the loan rate and the target price deficiency payment? The way I see it, with the additional budget cuts you could have a target price of $3.50 for wheat. Is that correct?

Mr. DEWHURST. Let me just say this. The President's budget will propose, of course, an alternative to the sequester. During the next 6 months the Congress may choose any number of means to get to the Gramm-Rudman deficit, which would avoid a sequester. A sequester if it comes with a deficit target of $144 billion and a deficit projection of anywhere from $180 billion on up would be much deeper than it is this year. We could be talking about sequesters of anywhere from 15 to 25 percent. And if you have a sequester of that depth, you have to cut everything very drastically.

Mr. ROBERTS. I used 20 percent in my figures, and it moves that deficiency payment down to $3.50. And yet farmers have to be in the program, have to be in the program the way this program is written. I think we have chopped off the leg of a three-legged stool. I hope we have the courage to admit it.

I thank you, Mr. Chairman.

The CHAIRMAN. Mr. Panetta.

Mr. PANETTA. Thank you, Mr. Chairman.

Having worked on this law in conference, I stated over and over again that this was not a carefully drafted proposal that would replace the budget process. It was carefully drafted to be a very blunt tool, and that's exactly what it is, no more and no less.

I understand that what the Department is doing is basically responding to the provisions that are contained in the law. I appreciate the difficulty, I am sure, of trying to analyze its various impacts. We suspected that that would be the case, and indeed that has proven to be the case.

Having said that, let me ask you a couple of questions with regard to its implementation. You have got a 4.3-percent cut, sequester order that is due to take effect on March 1. As I understand the work that we did in conference, and having worked on it with the chairman and also the chairman of the Appropriations Committee and others, with regard to the CCC we developed special rules to apply to the CCC. Those special rules were designed for a couple of reasons: One, to provide some predictability where in fact contracts were in place prior to the sequester order so that farmers who were in fact in contract would not be subject to sequestration; and second, however, to obtain those savings if not in that year, in the next year.

So, as I read the rule that was drafted, while you may not achieve savings in the first year in some areas, those savings are to be achieved in the second year. Am I correct?

Mr. DEWHURST. Yes, sir.

Mr. PANETTA. All right. Now, my question is this. I notice in the charts that you have provided that you have exempted certain areas. There are specific exemptions with regard to food stamps, WIC, and child nutrition. You include in your exemptions the CCC, $14.9 billion. My question is, Do those exemptions in CCC include the areas that you are going to have to achieve savings on in the subsequent year?

Mr. DEWHURST. No, the $14 billion in CCC outlays that are exempted are fiscal year 1986 outlays related to 1985 crop programs. Those are, therefore, prior year contracts and exempt from reduction under Gramm-Rudman.

I might say, Mr. Panetta, that the CCC number that is in the sequester order is not a fiscal year number. It is the projected outlays for the crop year 1986 programs. Most of those outlays will in fact fall in fiscal year 1987. But the legislation, in effect, does not specify where it falls. It simply says that you take credit for reducing that number in 1986.

Mr. PANETTA. That was my point. I wanted to make sure that the CCC programs that are going to have to be cut in order to achieve those savings in 1987 are in fact part of the base now, so we're getting some credit for that in terms of cuts in other areas.

Mr. DEWHURST. Yes, sir, that is correct.

Mr. PANETTA. And that is correct. That's the way you've approached it.

Let me ask you a question with regard to multiyear contracts, particularly in the area related to soil conservation and other areas. It was our intent in the conference that multiyear contracts not be included. What is the position of the Department with regard to that area?

Mr. DEWHURST. I might ask my assistant from our General Counsel's Office to talk about that. I think we understand your intent. We do not know at this point, a decision has not yet been made on exactly how we are going to treat the conservation reserve and the long-term contracts. We will know shortly. But we understand what you're trying to——

Mr. **Panetta**. Who will you know from?

Mr. **Dewhurst**. Well, we are going to take an analysis that is being produced by some staff people from our General Counsel's Office and ASCS forward to our Under Secretary, Mr. Amstutz, and through him to the Secretary. Ultimately, we will have to make sure that OMB and CBO do not violently disagree with what we have concluded.

Mr. **Panetta**. I would urge you to check with OMB, CBO, and, for that matter, GAO.

Mr. **Dewhurst**. Yes, sir, we——

Mr. **Panetta**. Because I think it was pretty much our intent in the multicontract area to make sure that they were exempted. So, I would hope that that would be the policy that would be implemented at your level.

Mr. **Dewhurst**. Well, we are not operating in a vacuum. We will——

Mr. **Panetta**. I understand.

Thank you, Mr. Chairman.

The **Chairman**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman.

I want to echo the general comments of my colleague from Kansas. Without pointing fingers at anyone, I think where agriculture got done in was in the conference on Gramm-Rudman, where everything was exempted for low-income individuals but agriculture. I would suggest if anyone look at the state of American agriculture today, it fits the definition of low-income programs a lot better than a lot of the programs that are protected.

What I would like to do is follow up with a question that Mr. Jeffords asked. Is it your interpretation that you do have flexibility as to how to achieved savings, when we look at a program, for example the dairy program, as to whether that saving can be achieved either through assessments or through price cuts?

Mr. **Dewhurst**. Our initial impression is yes.

Mr. **Gunderson**. That you do have that flexibility?

Mr. **Dewhurst**. As I have said, we have got a lot of people going to help us with that in other agencies of the Government. And ultimately CBO and OMB and others are going to be reviewing what we do. But our initial impression is that we have some flexibility, yes, sir.

Mr. **Gunderson**. Has there been any determination by the Department yet on various commodity programs where price support decreases historically have caused increased production, increased purchases, and increased costs, to try to avoid that and adopt a policy which brings down the cost, as opposed to simply a cut in the original support price?

Mr. **Dewhurst**. I am not sure I fully follow your question.

Mr. **Gunderson**. Let me give you an example. With the dairy program, for example, if you have a 4.3-percent cut in the price support for milk, every dairy economist will tell you that that lower price support will result in significant increased production in the country, increased purchases, and actually an increase in total outlays by the Department for that program. And it's not unique to dairy. I think that occurs in many different commodities.

Mr. DEWHURST. The answer is, we are trying to take a realistic look at all the programs. We are not entirely sure in every case how much flexibility we have under the Gramm-Rudman legislation. But we do want to be able to tell our policy people what their choices are as best we see and what the impacts may be. There are some cases, as we have said repeatedly, where you can do things that actually increase outlays or cause problems that weren't foreseen. To the extent that they can be avoided, I don't know of anyone who is going to not try to avoid them.

Mr. GUNDERSON. How do you project, or how do you calculate projected cost for entitlement programs? And in essence, the dairy price support is an entitlement program. How do you project the savings or the fiscal year 1986 cost of that program?

Mr. DEWHURST. We have a series of estimates committees in the Department that work with the various industries. We get projections from them of supply, demand, prices, and so forth. We have some computer models. We take that information. We run those models and try to develop budget cost projections out of those models.

It is a very imprecise system because for most commodity programs you are predicting not just the economy in a lot of ways, you are predicting the weather 6 months to 1 year, to 2 years in advance. For that reason, the estimates we have put in printed budgets which people think have so much weight tend to be very tentative. Certainly any review of history shows that there are times when we have not been very close.

We do our best. We get the best expert advice, you see, that we can. Then we try to convert that advice into budget numbers through a series of models that work from historical experience.

Mr. GUNDERSON. Let me share with you a dilemma. In 1985 the dairy price support outlays were about $1.7 billion. If we had simply maintained those programs as they were 1986, we would have had a projected outlay of $2.5 billion for the dairy program. Because we have instituted policy changes as a part of the 1985 farm bill, we expect those costs to be 1.7, probably hopefully even a little bit less, depending on how the program works.

What do you then use in determining the projected cost of the dairy program, of all those numbers I have given you or some others and calculating the saving?

Mr. DEWHURST. We use the 1.7. The reason we do that is because the Gramm-Rudman legislation requires that the reductions be made from congressional priority. So, no matter what the previous numbers were or what the President's proposals were, the outcome from the Congress is the set of numbers we have to use. So, we make reductions from the Appropriations Act numbers that we have. And we make reductions from projections that are based on the farm bill and the other policy changes that the Congress has put in. That is not something about which we have an option. We have got to use the congressional priority.

Mr. GUNDERSON. But do you use the 1986 appropriations level or the 1985 farm bill policy level?

Mr. DEWHURST. Well, in CCC you have to use the 1985 farm bill policy number, because the appropriations we get for CCC simply provide capital to run the operation by reimbursing the Corporation for its losses. That does not determine our outlay. The reimbursement does not generate outlays. In fact, the reimbursement is specifically exempted from reductions under the Gramm-Rudman legislation.

Mr. GUNDERSON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Huckaby.

Mr. HUCKABY. Thank you, Mr. Chairman.

I yield briefly to the gentleman from Kansas.

Mr. ROBERTS. I thank the gentelman for yielding.

Mr. Chairman, I ask permission that my full statement be made part of the record prior to the questions I asked of the panel.

The CHAIRMAN. The gentleman has a prepared statement?

Mr. ROBERTS. Yes, sir, I do.

The CHAIRMAN. If there is no objection, that will be incorporated into the record.

Mr. ROBERTS. I thank the Chairman. I thank the gentleman for yielding.

Mr. HUCKABY. Gentlemen, I would like to talk about 1986 deficiency payments. It is my understanding that they will be subject to a 4.3-percent cut. I think we have clearly stated that as such.

Mr. DEWHURST. Yes, sir.

Mr. HUCKABY. The 1985 farm bill specifically states that one-half of the deficiency payment for the 1986 crop shall be paid in advance. Is that not correct?

Mr. DEWHURST. Up to.

Mr. HUCKABY. Up to.

Mr. DEWHURST. Yes, sir, up to one-half.

Mr. HUCKABY. So, let's assume that you elected to go one-half. If a farmer is to—let's say he is eligible for $20,000, say a cotton farmer, deficiency payment. That means he would receive $10,000 of this this spring in advance when you finally get around to doing it. Now, with Gramm-Rudman he would take a 4.3-percent reduction from that. Is that not correct? So, in effect, he would get $9,570?

Mr. DEWHURST. Maybe. Let me just explain for a second. The outlay number in the sequester order from which the reduction is taken for CCC is the outlay number for the crop year 1986 program. Some of those outlays fall in fiscal year 1986. The vast majority of those outlays fall in fiscal year 1987. There is nothing in the Gramm-Rudman legislation that affects necessarily decisions about how many—what the level of advance payments is, or later payments. That decision will be made, but it is not dictated by the Gramm-Rudman law.

Let's assume in your example that you have a farmer and he qualifies for $20,000 and the decision is to pay half in cash in advance. So, he qualifies for $10,000 advance payment and then another $10,000 payment potentially at the end. You can either apply the 4.3-percent cut essentially both times, or you can hold the cut up till the last payment. I don't know how they'll do it at this point. There is nothing in the law that tells you you have to do it one way or the other. Gramm-Rudman treats the crop year 1986 outlays as a single package.

Mr. HUCKABY. Fine. If you elected to make some of this payment-in-kind, does that count as a portion of what has to be cut? If $10,000 were paid-in-kind as such, does that mean I only have to take a 4.3-percent cut from $20,000 or from $10,000?

Mr. DEWHURST. No. I think the statute covers cash payments, that a payment-in-kind is not subject to the reduction.

Mr. HUCKABY. So, if you make a payment-in-kind for an advance deficiency payment, you do not then have to cut—a very important question—you do not have to cut that amount in the 4.3 cut for Gramm-Rudman?

Mr. DEWHURST. That's the way I understand it, yes, sir. You do not cut the payment-in-kind.

Mr. HUCKABY. So, that $10,000 that you give him in cash will only be cut from that $10,000 and not the $20,000?

Mr. DEWHURST. Yes, sir. That's the way I understand it.

Let's assume for a moment that he's going to get that $10,000 advance payment, and $2,000 of it is going to be in kind——

Mr. HUCKABY. Because I am sure you are very well aware, since the Department elected to put on the street that they were considering going with generic certificates for payment-in-kind for advance deficiency payment, you have played havoc in the cotton market. It has dropped some 200 or 300 basis points, which we are going to have to make up between the announced loan rate and the basic loan rate of 55 cents later on anyway. There are those of us who wrote the law who just cannot see how you can conceivably arrive at this interpretation.

Mr. Conway, could you elaborate a little bit on where in the legislation you are gaining authority to make more than a 5-percent advance deficiency payment with payment-in-kind certificates?

Mr. CONWAY. The limitation with respect to the 5-percent provision, for example, in the wheat title, specifies that no more than 5 percent of the wheat deficiency payments can be made available in wheat. In the corn title, feed grain title, for example, it says no more than 5 percent of the feed grain deficiency payments can be made available in feed grains.

Mr. HUCKABY. But where are you getting the authority then to pay another 25 or 50 percent in——

Mr. CONWAY. You are talking about a generic certificate that is not paid necessarily in wheat, for wheat.

Mr. HUCKABY. Where do you get that authority from in the law?

Mr. CONWAY. The Commodity Credit Corporation Charter Act.

Mr. HUCKABY. I beg your pardon?

Mr. CONWAY. The Commodity Credit Corporation Charter Act, authority to make payments-in-kind.

Mr. HUCKABY. If I might refer you to page 100 of the legislation, it says the Agricultural Act of 1949, et cetera, is amended by inserting the following new section: in making in-kind payments under any of the annual programs for wheat, feed grains, upland cotton, or rice, the annual programs——

Mr. CONWAY. That's correct.

Mr. HUCKABY. The annual program is elucidated elsewhere in the 1985 act. No prior legislation is in effect. The 1985 act covers all of that.

I think you are reaching way beyond the intent of any conferee, anybody on this committee in what you're doing as such. The law specifically says on page 62, the Secretary may pay not more than 5 percent of a total amount of a payment made under this paragraph in the form of upland cotton.

Mr. CONWAY. That's correct.

Mr. HUCKABY. And to take that all the way around and then say, well, we are going to use a generic certificate to do it, was never discussed by anyone. I think you are——

Mr. CONWAY. I beg to differ, Congressman. In the transcripts of the hearing at the conference, there were specific references to generic certificates and making deficiency payments available.

Mr. HUCKABY. They were generic certificates only to the effect where you didn't have one commodity available and you could use for another commodity. But we never talked about using a generic certificate for greater than 5 percent for a particular deficiency payment.

Mr. CONWAY. That is also 5 percent of the total amount of deficiency payments that are made available for cotton or for wheat, not to the individual producer.

Mr. HUCKABY. Total amount of the deficiency payment. But we hear you're talking about maybe going up to 50 percent of the total deficiency payment in generic certificates.

Mr. CONWAY. Generic certificates may be made available. There is specific authority for negotiable certificates which will be the generic certificate concept and limited to the quantity of commodities made available.

Mr. HUCKABY. I see my time has expired. May I just refer you to one additional statement: use of upland cotton in making payments to producers shall be subject to determination by the Secretary to the effect that such in-kind payments will have on market prices of the commodity.

Mr. CONWAY. That's correct.

Mr. HUCKABY. And we have clearly already dropped the market prices significantly, just on the basis of what you have put out that you're thinking about doing.

Mr. CONWAY. Congressman——

Mr. HUCKABY. I don't think you're following the intent of Congress in the interpretation.

The CHAIRMAN. I thank the gentleman.

Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

To pursue a bit further the question of payment-in-kind that Mr. Huckaby has just raised, the laws of past years and not only just this one, I guess, authorize a variety of payment-in-kind programs that could be used for many different purposes, to encourage redemption of loans, to expand exports, to do a wide range of things. On those discretionary type programs, what, if any, effect does Gramm-Rudman have?

Mr. DEWHURST. Well, to the extent that you have authority to begin a program or to run a program and money to do that is not included in the projection, the cost projections that were made in the CBO-OMB analysis, you probably can't do those things. You have to offset the cost somewhere else. Under Gramm-Rudman you cannot do things that increase the number beyond what you have been given in that sequester order.

Mr. EVANS of Iowa. What you are saying then is you don't think the Secretary could with the existence of Gramm-Rudman come out with a program that said: if you will redeem your corn loan for the full loan value plus accumulated interest, we will give you so many bushels of payment-in-kind corn?

Mr. DEWHURST. Well, I mean, the honest answer is, if we were going to do something like that, we would have to take a strong look at how that would affect the net outlays of the Commodity Credit Corporation. Only in looking at those projections and seeing if we could still achieve the mandated Gramm-Rudman saving——

Mr. EVANS of Iowa. If there was a saving in such a program, though, you think it might be possible under Gramm-Rudman? Would that be your judgment?

Mr. DEWHURST. Yes. I don't want to indicate that I am certain about it, though. It wouldn't be fair.

Mr. EVANS of Iowa. No, OK. I accept your answer.

Similarly, I think there is authority in the law to do a mini-PIK Program to further cut production over beyond the specifics of the 1985 act. Would similar rationale apply that if the Department decided that the odds favored a net savings, then that might be possible, too, even with the existence of Gramm-Rudman?

Mr. DEWHURST. Yes, I suppose so.

Mr. EVANS of Iowa. But again, you're not quite sure?

Mr. DEWHURST. No.

Mr. EVANS of Iowa. I accept that.

Mr. DEWHURST. We are operating on the premise that we have got to do some far more mechanical kinds of things than that.

Mr. EVANS of Iowa. Yes. But it isn't obvious to you that that would be precluded?

Mr. DEWHURST. No, sir.

Mr. EVANS of Iowa. So, market drops generated by that sort of thing are also possible as well as what Mr. Huckaby is talking about, I assume.

Well, to move to a different subject, what is the effect of Gramm-Rudman on the very large producer who is up against the $50,000 limit on cash payments? Let's say that I am a large producer and that I calculate that if it weren't for that limit, I would be eligible for $75,000, but they are going to write the check for $50,000. Do they dock that check, too? Or do you say, well, you know, you would be eligible for more, and therefore you can still get $50,000?

Mr. DEWHURST. No. I think what you would do is, you apply the $50,000 limitation as you would under the basic law. Then you discount the check from that point so that the person would, in effect, get less than $50,000 in hand.

Mr. EVANS of Iowa. So, it——

Mr. DEWHURST. Again, that is one of the options we are looking at.

Mr. EVANS of Iowa. It's not firmly decided?

Mr. DEWHURST. No.

Mr. Evans of Iowa. But your inclination is that the $50,000 would be reduced somewhat by Gramm-Rudman?

Mr. Dewhurst. Yes, sir.

Mr. Evans of Iowa. What would be the Gramm-Rudman effect on the cargo preference laws and the requirement to pay for certain amounts of the food shipments in U.S. bottoms? Would we reduce the tonnage, or would we reduce the payment to the carrier?

Mr. Dewhurst. The Gramm-Rudman reduction does apply to the Public Law 480 program. However, there is some discretion, in our judgment, as to how it applies between the value of the commodities and the cost of the transportation. The best information I have at the current moment is that we can ship the level of commodities we anticipated in the budget and absorb the Gramm-Rudman cut because the truth is the cost of those commodities have been going down, below what we estimated in the budget.

If that turns out not to be true, then presumably we would have a hard choice to make. The law would seem to require us to try to reduce the transportation cost as well as the commodity cost. But I am not entirely sure whether or not in the end we could do that, because you would end up having commodities you couldn't ship. And it's not a very rational outcome.

Mr. Evans of Iowa. But you're not absolutely sure that the shippers wouldn't get the full 100 cents on the dollar and we would take the full cut, are you?

Mr. Dewhurst. No, I am not absolutely sure. Again, what the budget projects, of course, is a level of commodity under Public Law 480. And if we can maintain that level, we will have done what we said we would do.

Mr. Evans of Iowa. Thank you, Mr. Chairman.

The Chairman. I thank the gentleman.

Mr. Whitley. Mr. Volkmer. Mr. Hatcher. Mr. Olin. Mr. Penny. Mr. Bruce.

Mr. Bruce. What are you going to do on the loan only programs like soybeans? Are you going to raise the interest on the loan or reduce the loan amount?

Mr. Dewhurst. We would not, I suspect, raise the interest on the loans. As we have said with so many of these programs, there are two fundamental ways to do it. We will either reduce the rate, the loan rate itself, or we will keep the loan rate where it is but discount the checks when they come. When a farmer comes in for sign up, he will be told exactly how it is going to be done.

But our policy people have not made that decision yet.

Mr. Bruce. My concern is, when will they know? I mean, when can they walk in to my local office and get that question answered?

Mr. Dewhurst. Well, we will know here in Washington within the next very few days. And you will know, because it will be made—there will be some decisions made, and they will be announced.

The process of getting the county offices equipped to run these programs with all the details and training and forms and so forth that they need is a bit more difficult than making the announcement. And I don't——

Mr. Bruce. Is the date you keep—in a very few days—is February 1 what you are talking about, that date?

Mr. DEWHURST. I believe we have an obligation as soon as we can after the sequester order is issued to be able to tell everyone, especially the Congress, what it means and exactly what we are going to do.

Mr. BRUCE. You have been reluctant to say February 1. I mean, is it February 1, or some other date that you think that you will all of a sudden know all this?

Mr. DEWHURST. Well, the reason I am reluctant is because I have to get decisions from a whole series of people whom I cannot commit. The Secretary of Agriculture and the Under Secretary of Agriculture, and OMB, and CBO, and presumably GAO all have to at least agree they don't violently disagree with what we are doing. I have no ability to control those people's actions.

All I can tell you is that the analysis will be done very quickly.

Mr. BRUCE. After February 1?

Mr. DEWHURST. Well, it will be done, hopefully, before this week is out.

Mr. BRUCE. Well, this week runs out February 1.

Mr. DEWHURST. Yes, sir.

Mr. BRUCE. I mean, are we saying the same thing?

Mr. DEWHURST. Yes, we are.

Mr. BRUCE. What about the soybean program? If you signed a contract and loan already, before March 1, what is the effect of that, you enroll and get in the loan program before?

Mr. DEWHURST. Well, contracts are honored. But the key date in the law is February 1, because that's the date of the issuance of the order, and Gramm-Rudman talks repeatedly about the date of the issuance of the order as the key date.

Mr. BRUCE. In the earlier discussion which Mr. Panetta had with you about eligibility, it seemed to me in your testimony at that time you were talking about March 1. You're saying that the Department is going to indicate that all contracts entered into before February 1 will be under one class, and those after February 1, March 1, will be in another class?

Mr. DEWHURST. If I misled him, I am sorry. February 1 is the date. Contracts entered after February 1 are subject to the Gramm-Rudman reduction.

Mr. BRUCE. And is it clear to you—at least it is in my district—that your agency is not entering into any contracts at all because of lack of information out there, either by design or default, nothing is going to be entered into between now and this weekend?

Mr. DEWHURST. As far as I know, you're correct, yes, sir.

Mr. BRUCE. Can you tell me whether that is by design or just by inaction?

Mr. DEWHURST. Well, it's really by neither. As a practical matter, there are a lot of people working very hard on implementing these programs. It hasn't been done yet. We are trying to implement the farm bill and Gramm-Rudman simultaneously and then train field offices to deliver the programs. All I can tell you is that there are some staff people who have worked very hard to try to get all that done. We have not been in the position to give our policy people all the help they need. The policy people can't make decisions when you don't give them the information. So, as a professional all I can tell you is we are doing everything we can. I would love to be able to answer all your questions.

Mr. **Bedell**. Mr. Chairman, I ask unanimous consent the gentleman have 30 seconds. I think it is very critical.

The **Chairman**. Without objection.

Mr. **Bedell**. Would the gentleman yield?

Mr. **Bruce**. I would be happy to yield.

Mr. **Bedell**. Do I understand that we can tell our people that they probably will have an opportunity to sign up for the program by the 15th of February?

Mr. **Dewhurst**. No.

Mr. **Bedell**. That is what I thought you just said.

Mr. **Dewhurst**. We are talking about announcing the program, telling people what the terms and conditions will be, but that does not necessarily tell you when a county office will have all the details and all the forms to sign up.

I cannot tell you. I will not make that decision, and I don't know what it will be.

Mr. **Bedell**. But there will not be a delay. You will move as fast as you can.

Mr. **Dewhurst**. The delay will be caused by the training, not by some decision——

Mr. **Bedell**. You will move as rapidly as you can for signup after you know what the program will be.

Mr. **Dewhurst**. Yes, sir; absolutely.

The **Chairman**. The time of the gentleman—has the gentleman concluded?

Mr. **Bruce**. Thank you, Mr. Chairman.

The **Chairman**. Mr. Volkmer? We passed Mr. Volkmer up.

Mr. **Volkmer**. Yes; I don't know if I will use the full 5 minutes. I just have several questions.

One, on the deficiency payments, we pay them out with an advance payment and then final payment maybe even next year, before we get to the final payment. Do you anticipate making the cuts on the advance payment, or wait until the final payments, or how do you plan to do that?

Mr. **Dewhurst**. I don't know. Gramm-Rudman does not make you do it either way in particular.

Mr. **Volkmer**. I know that, but the money will have to come up somewhere along the line. You haven't made a decision yet——

Mr. **Dewhurst**. No, sir.

Mr. **Volkmer** [continuing]. As to when the payment periods will be that you will be making the cuts?

Mr. **Dewhurst**. No, sir.

Mr. **Volkmer**. All right; but you recognize that there will have to be a decision.

Mr. **Dewhurst**. Yes, sir.

Mr. **Volkmer**. Now, I understand there will be no reductions in the loan levels themselves on any of the commodities?

Mr. **Dewhurst**. That is not necessarily correct. Again, to go back over what we were discussing earlier, under the sequester order, there is a line entitled CCC loan limitation, which assumes that the Department will make fewer loans than we had anticipated.

That means we have to cut the loan level either by discounting loan checks, running them on the same loan level for discounting the checks when they are issued, or going through program by program and finding some way to reduce the loan rates themselves.

I do not know how we are going to do it, but there will be some deduction in the benefits farmers get from the loan program as well as from the deficiency program.

Mr. VOLKMER. So, since that is really the only program we have, a loan program for soybeans, I can't tell my soybean producers anything yet.

Mr. DEWHURST. No, sir.

Mr. VOLKMER. As far as the soybean loan rates. That loan rate could be 5.02, or the Secretary could already under law reduce it to 4.77, and under this, if he applies a sequester order to this, that could be reduced another 4.3 from that level; is that not correct?

Mr. DEWHURST. Well, that is possible; yes, sir.

Mr. VOLKMER. Now—or would he just apply it to the check on the 4.77 rate?

Mr. DEWHURST. Well, that is a choice he has to make. We have talked most of the time here about doing the latter, because it is the simpler thing to do administratively and seems to be better in many ways for the producers.

Mr. VOLKMER. Well, I quite agree, but there has been no firm decision there?

Mr. DEWHURST. No, sir.

Mr. VOLKMER. Either on deficiency or on the loans, then?

Mr. DEWHURST. No, sir.

Mr. VOLKMER. Now, on the other programs, such as I have heard discussed here, like the Public Law 480 and other programs where we are not involving directly in the commodities, whether it is APHIS or anything else, where you have both program and administrative costs, those would be allocated proportionately on a 4.3, between administration and the program itself; is that correct?

Mr. DEWHURST. Yes, sir. We have to allocate the cut on a proportionate basis down to the line items that show in the budget, and in some cases, all the way down to field locations because of the legislative history with our appropriations bill.

Mr. VOLKMER. Right. So that you may end up by doing the same thing out in the local ASCS office.

Mr. DEWHURST. Yes.

Mr. VOLKMER. Is that correct?

Mr. DEWHURST. Yes.

Mr. VOLKMER. Thank you, Mr. Chairman. I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman.

Mr. Franklin.

Mr. FRANKLIN. Thank you, Mr. Chairman.

I would like to go back to some of the questions that the gentleman from Louisiana asked you concerning the payment made in-kind, is not subject to the Gramm-Rudman sequester order; is that correct?

Mr. DEWHURST. As we understand it, because they do not generate cash outlays.

Mr. **Franklin**. Would that be true, even if the payment-in-kind certificate were a generic certificate that amounted to a negotiable instrument, a cash instrument?

Mr. **Dewhurst**. I would assume that is still not cash in the sense of the Federal Government accounts for its cash.

Mr. **Franklin**. So, whatever the form of the certificate, if the payment is in-kind on option among a number of kinds, then the Gramm-Rudman sequester order would not apply; is that correct?

Mr. **Dewhurst**. That is correct. The only thing, to be fair, the extent—it costs CCC money to have more inventory. To the extent you have a program that is so large they have to go out and acquire more inventory, that is a cash outlay.

Mr. **Franklin**. How much discretion does the Department or the Secretary have in setting for a generic certificate or any certificate in-kind, the redemption date?

Mr. **Dewhurst**. I'll let Mr. Conway answer.

Mr. **Conway**. Well, I believe, Congressman, there is authority to establish—and I think it is quite clear, during the—I thought it was clear—during the course of the conference that when certificates, especially negotiable certificates are redeemable, they are redeemable at a market value, at a current market value.

Mr. **Franklin**. Current market value. In other words, if a person goes up and signs up, and if this program happens to have a payment-in-kind certificate, whether it is generic or not, that commodity is available for sale on the market that day. Is that what you are saying?

Mr. **Conway**. Well, I think you are still developing the terms and conditions of the programs, so I can't speculate on that, Congressman, but I think that——

Mr. **Franklin**. Does the Secretary have the authority to determine when the redemption date is? In the past, historically, these certificates-in-kind that have been issued in the past have always been issued at the orderly harvest date of the particular commodity to apply to the payment-in-kind; have they not?

Mr. **Conway**. Well, the 1983 Payment-In-Kind Program, I think the value of the PIK certificates, the PIK entitlements, was based on the loan rate that was applicable to the commodity.

Mr. **Franklin**. So, therefore, that commodity, even if you had a certificate for it, could not be marketed until the normal marketing date for the commodity. They have changed. The Mississippi cotton was different from Texas cotton, California cotton——

Mr. **Conway**. Availability dates.

Mr. **Franklin**. Availability dates. Maybe I am using the wrong term. Has any decision been made concerning a possible—would a generic certificate change those normally accepted availability dates for certain commodities that that certificate could be redeemable for?

Mr. **Conway**. I am sorry, Congressman, I am not the one to answer that question.

Mr. **Franklin**. Well, are you familiar with any conference agreements that were arrived at concerning that during the process when these things were discussed?

Mr. **Conway**. I quite frankly don't remember any, but perhaps—I remember the one issue was the current market value of the commodity. And there may have been others.

Mr. **Franklin**. Are you saying, gentlemen, working on the ag input to the President's budget that will be submitted to try and comply with the Gramm-Rudman sequester order, the alternative budget that the President will submit?

Mr. **Dewhurst**. Yes, sir.

Mr. **Franklin**. Will there be a substantial alternative, or are you at liberty to say that, then, across the board as you have described it and explained it to us today? Or do you know that? Can you say it?

Mr. **Dewhurst**. It is not my privilege to announce the President's budget, but I think I can say that it will present a far better proposal than the kind of sequester we might look forward to in October if nothing else is done.

Mr. **Franklin**. So, then, we will have an alternative to this picture that you are painting; is that correct? Coming from the administration?

Mr. **Dewhurst**. Yes. You have an alternative to what might happen this coming October, not what is happening right now under this 4.3.percent cut. That is a given.

Mr. **Franklin**. That is a fait accompli.

Mr. **Dewhurst**. Well, unless the Congress chooses to do something during the month of February to make some very substantial changes.

Mr. **Franklin**. Well, under the law, we could do that, could we not?

Mr. **Dewhurst**. Oh, yes.

Mr. **Franklin**. This committee could be meeting to put in our own input as to how to allow that 4.3 across-the-board cut. Could I ask the chairman, is there any plan to do that on the part of the Agriculture Committee, to try to make these decisions internally rather than leaving this to the whim of the sequester order across-the-board, as it has been explained today?

The **Chairman**. That has been our intention all along, I will remind the gentleman.

Mr. **Franklin**. I hope we can do that. I fear, I hear on the street, I hear rumors that there will be a stonewall on this thing to require these things to go into effect, and I certainly would hope that this committee would take the initiative in cleaning our own house, rather than stonewalling this, because I certainly think that we, who have worked through the process of formulating this farm bill——

The **Chairman**. Would the gentleman yield?

Mr. **Franklin** [continuing]. We could do a much better job at arriving at the target goal, particularly for agriculture, even though it is extremely high, than we can by allowing this order to go into effect.

Yes, I will be glad to yield.

The **Chairman**. I would like to further advise the gentleman that this has been our intention all along, but the problem, as I have been informed, is that even though we are responsible, even though we make the necessary cuts, if in total the Congress does not, then the sequester order will come into effect, we would not be dismissed from the cuts that we have made, but then we would get, in addition to the sequester order cuts—this is what the gentleman may have heard, and I am tempted myself—why be responsible when those that are not are going to be rewarded?

And to be responsible, we are going to get cut twice. That is the decision we have to make. But the question of whether this committee is responsible, we always have been. We intend to continue being, but we may be caught in a catch-22 type of situation where we do the responsible thing, and then we are docked again because someone else was not responsible.

Mr. **Franklin**. If the gentleman will yield back.

The **Chairman**. I yield back.

Mr. **Franklin**. In response, and I certainly understand what the chairman is saying, and I understand his interest in trying to be responsible in this committee. However, this law that we voted for, and passed, gives us many alternatives that we, as Congressmen and Representatives of the United States of America, can make decisions on.

And I think that that is what we should be doing. Certainly we have learned how bad it is going to be if we let the sequester order go into effect. I certainly suggest, and I am willing to work with everyone on this committee and in this Congress, of coming up with budget decisions that we independently arrive at by voting on various programs, and what programs will be cut and what programs will not be cut, rather than leave it to this method.

We refused to do that in the past, now we have the excellent opportunity to face the responsibilities that we all have in doing that.

I yield back the balance of my time.

The **Chairman**. The Chair will take 30 seconds, and with all due respect to the gentleman, we have not refused to do this in the past, we have met our responsibilities, we have taken the cuts every year for the past 5 years.

This committee hasn't been the problem, with expansion of the budget or with deficits, because we, regardless of the cost of the programs, we have met, every time that the budget has given us a reconciliation figure, we have met or surpassed.

So, being responsible is not a question mark as to this committee. We have been there all the time.

Mr. Penny.

Mr. **Penny**. Thank you, Mr. Chairman.

I think my question is best directed to Mr. Hall. Do you have an estimate on what savings we would achieve by putting a hard and fast limit of $250,000 on price support loans?

Mr. **Hall**. No, we don't have an estimate of that kind. That would require legislation, I would think.

Mr. **Penny**. I recognize that, but as the chairman indicated, and as Mr. Franklin discussed, there is an opportunity for Congress to legislate in a comprehensive fashion to achieve savings and thereby avoid the automatic cuts that would occur under Gramm-Rudman, and I am just trying to explore some of the possibilities that might get us around this.

And that one in particular comes to mind. Could you get for us the numbers on that?

Mr. HALL. Yes, I could provide that for the record.

[The information follows:]

COMMODITY LOAN LIMITATION

Question. What would be the savings if CCC loans were limited to $250,000 per producer?

Response. During calendar year 1985, 505 producers received 1984 crop commodity loans for $250,000 and above. This represents 0.2 percent of the total producers receiving 1984 crop loans. However, these 505 producers received approximately 10 percent of the total value of 1984 commodity loans disbursed in calendar year 1985. This represented $433 million in gross outlays for commodity loans. The amount of net savings that would be realized is difficult to estimate, but we feel that the amount would be negligible after considering loan repayments. It should be noted that in applying any loan limitation provision, an amendment would be needed for cooperatives and associations, which currently receive CCC loans for amounts far greater than $250,000 and in turn, make these amounts proportionately available to member producers.

Mr. HALL. I might make the comment that most loans do not average that, so that the savings achieved from a $250,000 loan limitation may not, in fact, generate much of a savings due to the average level of most of our loans.

Mr. PENNY. Well, there are certainly those that do exceed that limit, and if you could just aggregate for me what the savings would be if those in excess of $250,000 had that kind of a cap in the future?

Could you, if you don't have the number on the loan limits, I doubt that you would have the number on what we could have if we put a hard and fast $50,000 cap on deficiencies, but if you don't have that, could you get that for us as well?

Mr. HALL. Yes, we could provide that as well.

[The information follows:]

FINDLEY AMENDMENT

QUESTION: Would you please provide an estimate of the 1986 crop savings that would be realized by applying the Findley amendment to deficiency payments with the 50,000 payment limitation?

RESPONSE: An estimated $539 to $606 million in 1986 crop savings would be achieved by extending the Findley provision to include deficiency payments. The following table provides a further breakdown of savings, by commodity.

1986 Crop Savings by Including Findley Deficiency Payments in the $50,000 Payment Limitation (1)

Commodity	Savings based on FY 1987 President's Budget --millions $--
Wheat	$175 - 200
Corn	325 - 350
Sorghum	25 - 35
Barley	13 - 18
Oats	1 - 3
Total	539 - 606

(1) Rice and cotton do not have Findley adjustment provisions. Since a producer could collect loan deficiency payments through the loan program, applying the limitation would not be feasible.

Mr. PENNY. Do you know what we could save in farm program outlays if we raised the loan level and left the target price where it is?

Do you have various scenarios that would show us the cost savings we might achieve by raising that loan limit?

Mr. HALL. These are fairly complex analytical questions that we can certainly get you answers to, but we would not have those kind of answers here.

Mr. PENNY. But you certainly have criteria and assumptions that go into identifying how much money you save by raising the loan level, and offsetting any additional commodities that might be turned over to the Government under that kind of a plan?

Mr. HALL. Yes.

Mr. PENNY. Do you have, down at the Department, some of the numbers at various loan levels, because I know the Secretary had the choice of taking the loan level down, I think, 5 percent initially, and then an additional 20 percent.

And so you must have run some numbers as to what the budget obligation would be under each of those.

Mr. HALL. Well, the President's budget, which has yet to be released, obviously, contains some assumptions with respect to what those program announcements were and will be.

Mr. PENNY. Did you run some numbers for the Secretary as to budget outlays if he only lowered those loan rates by 5 percent as opposed to 15 or 25 percent?

Mr. Hall. Well, I can only say that in the process of formulating and determining within the farm bill legislation what the program announcements would be, that various scenarios were, in fact, looked at for the Secretary to make his decision on.

So, to the extent that that is available, yes, I guess——

Mr. Penny. I would be interested in that. Offhand, do you recall whether the Secretary chose the least cost program of the various choices that were put on his plate?

Mr. Hall. I am not involved in those negotiations.

Mr. Penny. Is there somebody here that can answer that question? Did the Secretary choose the farm program options that cost the least, or did he choose one by going to these low loan rates, I think for corn in my area—corn nationwide is $1.92, but in my area, it is probably $1.76—or did he choose one that actually cost more for the Federal Treasury?

Mr. Hall. Well, the Secretary, to my understanding, is certainly cost-conscious in terms of what budget he was going to submit to OMB.

However, I am sure that the decisions reached reflected the philosophy that he iterated many times before this and other committees in the formulation of the 1985 farm bill, which reflected, as you know, his desire to lower loan rates to make our commodities more competitive.

So there is a balance there.

Mr. Penny. Well, I am sure the latter part of that statement is true. I am not convinced of the former part of that statement, Mr. Chairman.

Thank you, Mr. Chairman.

The Chairman. Thank you.

Mr. Combest.

Mr. Combest. Thank you, Mr. Chairman.

There is not a page number, but about halfway over in your statement, Mr. Dewhurst, you have a chart—you have a schedule there, that says U.S. Department of Agriculture outlays?

Mr. Dewhurst. Yes, sir.

Mr. Combest. Under No. 1, CCC crop year 1986 programs, previous estimate, $18 billion sequester and revised estimate. Does that figure include your estimation of CCC under the 1986 farm program outlays for loan deficiency payments?

Mr. Dewhurst. Yes, sir.

Mr. Combest. That also includes—isn't the ASCS personnel budget in CCC?

Mr. Dewhurst. Yes, sir.

Mr. Combest. On page 3 of your itemized agency—down toward the bottom, you show Commodity Credit Corporation again.

Mr. Dewhurst. Yes, sir.

Mr. Combest. 1985, $15 billion; and then 1986 spending authority. Is that—realizing that there is just a difference in the spending authority in the previous estimate, does the initial figure include the—I believe it is $5 billion for the GSM Program, the loan guarantee to foreign governments?

Mr. Dewhurst. No, because those commitments do not involve Federal outlays.

Mr. COMBEST. All right. Is that included in the $22 billion under the authority?

Mr. DEWHURST. I don't think so. I think the difference between those figures is essentially repayments we get on crop loans. You see, the outlay number is a net number, net of repayments.

The spending authority number is the gross level of business that we do, so the spending authority number does not take account of net receipts to the Commodity Credit Corporation.

Mr. COMBEST. What I am trying to find here, I am still kind of gray on it, in the $18 billion, previous estimate, that does not include the $5 billion that we have in the GSM Loan Program?

Mr. DEWHURST. Well, the $5 billion is a guaranteed program and does not generate Federal outlays, at least at the beginning, and therefore is not included in our outlay numbers. Technically, it is not even budget authority, it is a loan level, in technical terms.

So it does not appear specifically on a lot of our technical charts.

Mr. COMBEST. Well, the guarantee program for Farmers Home Loan shows up, doesn't it? Isn't it reduced under the sequester?

Mr. DEWHURST. Oh, yes—OK, I am sorry, I am confusing you, and I apologize. The GSM Program is reduced under the sequester order, as are the Farmers Home programs. The only difference is in each table, there are some technical differences that don't treat that issue very well.

Mr. COMBEST. If the $5 billion is reduced——

Mr. DEWHURST. Yes, sir. You can find it in the Federal Register notice that the OMB and CBO put out as a specific item.

Mr. COMBEST. OK, and then another question I have, it is just a clarification, because I can't for certain see where these figures come from.

On that page 3 again of the itemized, you have total USDA figure, and then you have two other lines, Farmers Home and REA, and then a final figure. What is the difference—what is in the Farmers Home figure there that is not in the Farmers Home in the itemized?

Mr. DEWHURST. The reason for that is that Farmers Home and REA both engage in transactions with the Federal Financing Bank, whereby we sell certificates of beneficial ownership to the Federal Financing Bank in order to recapitalize our short funds.

The Federal Financing Bank, up until now, has been considered off-budget, so to the extent that those transactions generated budget authority and outlays, they were never reflected in our budget, nor were they reflected in the outlay figures the President sent to the Congress.

But the Gramm-Rudman legislation changes that. It now requires that all the off-budget outlays be brought on-budget, and for that reason, you will find extra lines on most of our tables now.

Mr. COMBEST. Thank you, I understand that.

Assuming, and I realize that there are, in farm programs, particularly like, for example, in your CCC outlays, in your estimations not knowing exactly how many crops are going to be turned over to the Government or anything else, assuming—I wish it would be the case—assuming things turn out to be extremely good and you find out you don't expend nearly as much as you anticipate, is there anything in there made to allow that farmer then to recover those payments that were made, to recover what was deducted initially from their checks; since we are talking about outlays to the farmer in price support payments?

Mr. DEWHURST. Not to my knowledge. I mean, I am relying on the legislation, which really doesn't seem to provide for midcourse corrections either way. Once you announce a sequester order, you seem to have to live with it for the period that it is in effect.

I assume if you were going to do something like that, the President would be required to do a complete new estimate, and everybody would then have to wait and see what the total Federal deficit turned out to be.

The fact that we might be under in one program might not help.

Mr. COMBEST. Are you anticipating, just in your discussions over the Gramm-Rudman, are you anticipating substantial layoffs under county personnel, Farmers Home, or ASCS?

Mr. DEWHURST. No, we are not. The ASCS, it has to staff up a bit to deal with the farm bill. They may staff up a bit less than they had anticipated. The same is true in Farmers Home. We have been talking about the need to staff that agency up, and some of those plans may have to be foregone.

Mr. COMBEST. But it would be a reduction in the increase, rather than a layoff?

Mr. DEWHURST. When you look on a county-by-county basis, that is not to say there is not an office out there somewhere that has a problem. On a national basis, that is the situation as I see it.

Mr. COMBEST. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Tallon. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

In light of several of the statements that have been made today, I was reminded of the quote of Winston Churchill, when he observed that democracy is the worst form of government ever created, save all the others. And that is kind of the way I felt the day that I voted for Gramm-Rudman, and why I would vote for it again tomorrow, were it to be presented.

The reason we had to have it is because we have failed to deal with deficits. And let's not forget for a moment as we seek to place blame everywhere but where it belongs, that had we passed a budget last year that would have really met our $172 billion deficit that we wrote home and told everybody about, we wouldn't be here today.

And we are getting a small sample of what automatic cuts really taste like, and we don't like it. And I don't like it. And if we don't deal with the budget this year, when we come back here next August we are really going to, as the gentleman from Kansas said, gut the farm program.

This doesn't do it, in my judgment, because if by chance there is any relation between deficits and interest rates, and if interest rates can be lowered by 1 percentage point as a result of us trying to get the attention of everybody, including our constituency, that we are really doing something about the deficit. The amount of cuts in our farmers' income because of Gramm-Rudman will be small, compared to what we will put in their pockets, as the result of lower interest rates.

And that is the way I choose to approach this today. We can do this. We must do this. We are here today to ask questions that these gentlemen have got to do and are trying to do it automatically across the board, and that is difficult to do, because you shouldn't be cutting in some places you are cutting. You ought to be cutting more in other places.

But I am afraid you don't have that latitude, and these are the questions that I want to ask today.

Dr. Houston, it is my understanding that, or as you look at this, there is a possibility that you might consider changing the work day of our meat inspectors to 7 hours a day, and have the meat plant pick up the other hour and pay for it.

My question to you, if you are considering that, by what authority would you have to impose a user fee without congressional approval?

Mr. HOUSTON. Mr. Stenholm, if I may, the impact of Gramm-Rudman on the meat and poultry inspection program is very complex. I have some personal notes here. It could take me about 2 minutes to go through them, and I could answer your question at the same time, if you would agree to that.

Mr. STENHOLM. Be happy to hear you.

Mr. HOUSTON. Our current appropriation level for meat and poultry inspection is $362.1 million, and for fiscal year 1986, the cutbacks from Gramm-Rudman will result in a $15.6 million reduction, which leaves us with an appropriation of $346.5 million. This is $18.1 million below our fiscal year 1985 budget.

Now, I would like to start by emphasizing that we are doing everything possible to meet the budgetary limitations with minimum disruption to the industry and everyone else affected.

However, there is going to be some uncertainty. OK, what are we doing? First, we are continuing a full hiring freeze and reductions in training and travel that have been in place for most of the fiscal year.

Second, an interim final rule was published in today's Federal Register that would reduce by over 400 the number of poultry inspectors we have on board. This will be accomplished by implementing a new streamlined inspection system in all plants that slaughter young chickens, and that includes a new finished product standard.

Now, those actions would account for all but $9.1 million of the $15.6 million reduction required, and we are studying other means to achieve the necessary reductions. However, we are limited by the fact that the Food Safety and Inspection Service is a labor-intensive agency.

Almost 90 percent of our budget is allocated for salaries and benefits. Therefore, a reduction as significant as this is impossible to absorb with a reduction in funds allocated for salaries and benefits.

As a result, we have no alternative but to propose a furlough for all employees, all 9,000 employees, including yours truly, including inspectors at the plant level.

We are proposing to furlough each employee for a maximum of 79 hours between March 1 and the end of the fiscal year. To minimize disruption to the industry, the work day would reduce from 8 hours to 7 hours for inplant personnel.

An interim final rule to this effect is currently under consideration. Plants would have the option to pay USDA for an extra hour of inspection if they wished to operate for 8 hours.

Let me say parenthetically that this rule has been thoroughly reviewed by our Office of General Counsel, who have indicated to me that they believe that legal sufficiency exists for us to go forward.

I cannot give you a detailed response for your question or cite any specific law, but I have counseled with them closely.

Now, let me go on to say, though, that this approach has doubtful legal status from another standpoint, and that is based on what Mr. Dewhurst said earlier with regard to the fact that a spending ceiling has been imposed under Gramm-Rudman, regardless of the source of revenues.

Therefore, even if industry wanted to pay for an extra hour of inspection, we could not do so, since the spending ceiling would be violated. So we are on the horns of a dilemma, and we have not yet come to a final decision in that area.

Now, we are also exploring other areas. For instance, we have requested from the Office of Personnel Management permission for early retirement of our employees, and we anticipate a decision from that group shortly.

We are also examining whether we can limit, under our current authority, the amount of inspection we are required to provide to industry. Currently, we provide plants that operate two shifts, with coverage for both shifts at the taxpayers' expense.

It may be possible to limit coverage to one shift only. There are a number of other actions we can take and still meet our mandate.

However, at some point, we will be forced to seek legislative change in order to absorb further budget reductions.

An example would be legislation transmitted to Congress last August to permit less than daily inspection in processing plants.

The last point is extremely important, since our hiring freeze will ultimately lead to a lack of inspectors to conduct mandatory inspection in the Nation's 7,400 meat and poultry plants.

When this occurs, the industry will have to cut back or cease operations, since plants cannot legally operate unless an inspector is present.

I would also like to emphasis that the effect of Gramm-Rudman-Hollings on State budgets may place us under an additional budgetary burden. Although it is still too early to tell, we are still prepared for the possibility that some States may consider asking the Federal Government to assume responsibility for their inspection programs, because we are making cuts in our grants for States program.

This would mean USDA would have to fund additional inspectors, as well as support staff, to take on this added responsibility.

I hope I answered your question.

Mr. STENHOLM. I am afraid you did. My time has expired, and I just hope that you have the same opportunity to so eloquently explain what we are really talking about now in this particular way of doing business, to the President of the United States.

Because I think it would be very helpful for him to hear from someone like yourself a little more often about the ways that some of these cuts are in fact going to hit us, since he signed this bill just like I did.

The CHAIRMAN. You and the President are in deep trouble, Mr. Stenholm. [Laughter.]

Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman. Most of my questions have been answered by this point, but I do have one here.

The sequester order, as I understand it, specifically reduces by 4.3 percent the direct loan obligations. For CCC commodity loans, then, the sequester order has a fixed direct loan level specified; is that correct?

Mr. DEWHURST. Yes, sir.

Mr. EMERSON. Then, doesn't Gramm-Rudman-Hollings establish for the first time ever a direct loan obligation ceiling for the CCC?

Mr. DEWHURST. I am not aware of any in the past.

Mr. EMERSON. What happens if the estimate is wrong and we reach that ceiling? Do we quit making CCC loans?

Mr. DEWHURST. Well, we are still looking at that. This is one of those unanswerable questions. Obviously, the Corporation is not designed to operate that way. You don't run the program in such a way that you make the loan to producer and then turn the other down, and yet we have this number in this sequester order.

I think it is fair to say that none of us fully understand the complete import of that number at this point.

Mr. EMERSON. This year, how will the sequester order affect Farmers Home direct loans and guarantees?

Mr. DEWHURST. Those items are subject to the sequester order, and the table we provided with my statement shows the levels authorized in the farm bill or the appropriate legislation, and what the revised levels will be under the Gramm-Rudman order.

Mr. EMERSON. That being first come, first serve?

Mr. DEWHURST. Well, as you know, I do have Mr. Calhoun here from Farmers Home, but they make an allocation to States. It is my understanding that they will reduce that allocation on a pro rata basis.

So each office will have somewhat lesser amounts of money to make loans from.

Mr. EMERSON. How does the sequester order impact the Farm Credit Administration? Won't its spending be reduced, even though they are funded by these, also?

Mr. DEWHURST. Well, I am hardly an expert on the Farm Credit Administration, but I suspect you are correct. I have to check the sequester order to know precisely. Someone behind you knowing more than I do is saying yes.

Mr. EMERSON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Stallings.

Mr. STALLINGS. Thank you, Mr. Chairman.

Have you had an opportunity to evaluate what impact the Gramm-Rudman deficit reduction law will have on some critically important pest control programs in APHIS?

In particular, I am interested in knowing how much flexibility USDA will have in shifting funds among programs or borrowing from CCC, as has been done in the past, in order to guarantee a reliable source of funding for emergency pest control, that by virtue of their origin do not necessarily reoccur on an annual basis, but rather depend on many uncontrollable and unpredictable factors such as the weather.

Mr. DEWHURST. Well, let me say this: It is based on the instructions we have in our Appropriations Act, the Gramm-Rudman reduction will be applied on a pro rata basis to each line item in the budget for the Animal and Plant Health Inspection Service.

As you know, they have about 35 individual programs. The question, as you say, then comes up when you have a problem in one of those areas. There are two ways, ultimately, to deal with those problems.

One is to try to reprogram money from one item to another. We have a process we go through with the Appropriations Committees by which reprogrammings are proposed and approved. It is not clear to us how receptive, to be frank, the Congress will be to reprogrammings which, in effect, take the lower base of funds and do away with the pro rata distribution of the Gramm-Rudman cuts.

The other way to deal with the problem is to acquire more money, either going to the Commodity Credit Corporation or requesting a supplemental appropriation. Both of those transactions increase Federal spending above the levels contemplated in the Gramm-Rudman legislation.

So, at this point, unless we can find offsetting savings somewhere else in the agency or in the Department, presumably one cannot do that. But it would depend on the exact magnitude of the dollars involved and whether there were some other place we could find the money.

Mr. STALLINGS. Let me pursue this just a little further. I am specifically thinking of the Cooperative Rangeland Grasshopper Control Program, which is managed on the public lands in the 16 Western States.

You may be aware that this particular program has been consistently underfunded since 1981, in terms of both USDA manpower and on-the-ground spraying. It has resulted in devastating grasshopper infestations in the last 2-consecutive years, particularly in my home State of Idaho.

After much effort, we were finally successfully in restructuring the funding mechanism for this particular grasshopper program, and appropriated $18 million for the program in fiscal year 1986.

But I am greatly concerned about the prospects for 1987, and the future years. I would be real interested in knowing what, if any, flexibility there will be in meeting these emergency needs.

Obviously, the grasshopper problem apparently is going to hit us again this next year. Would you address that, if you could?

Mr. DEWHURST. Well, for fiscal year 1987, of course, that is not covered by this current sequester order. The President's budget that he releases next week will have a budget for that agency, and a budget for each of those programs.

And the Congress will have its opportunity to work its will upon those numbers. To the extent it does so and we avoid another sequester, the problem can be dealt with. If we find ourselves in another sequester in October, then most people think if so, it will be far deeper than the one we are dealing with now, those options become practically nonexistent.

Mr. STALLINGS. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Mr. Daschle.

Mr. DASCHLE. Thank you, Mr. Chairman.

I would like to go back, Mr. Dewhurst, to the whole question of signup. You have already indicated that it is going to be a February 1 date. What in your opinion is the legal eligibility for a farmer if contracts were signed prior to February 1?

Mr. DEWHURST. Well, I think if the contract was signed by the first of February——

Mr. DASCHLE. Prior to.

Mr. DEWHURST. Yes, and there was no provision in that contract recognizing the possibility of a Gramm-Rudman reduction, that contract is law; it must be honored.

Mr. DASCHLE. So, as I understand it, you then are saying that the legal interpretation is that they would be entitled to their full eligibility if a contract were signed prior to February 1?

Mr. DEWHURST. Yes, sir.

Mr. DASCHLE. I have gone through and looked at the history of the signup eligibility dates all the way through. In virtually every single case, from the first year the farm bill was implemented, signup had already begun in January. That is why I am very confused and in fact extremely skeptical about the answers you have given this afternoon to so many of our colleagues about signup. Frankly, I can't believe that the administration is tied up in all of this mumbo jumbo when the fact is that each and every time a farm bill in the past has been provided, farmers have had ample opportunity to signup prior to February 1.

Now, you're telling us for the record that that is the reason why most farmers are not being able to sign up, that you've got all this interpretation to do?

Mr. DEWHURST. Yes, sir, it is an honest position.

To go back historically, I suppose I could look at each farm bill. This one is particularly complex.

Mr. DASCHLE. I think that's a bunch of bunk, frankly. I mean, here you've cut farm programs another 50 cents for wheat, or 90 cents for wheat, 50 cents for corn. We have already taken our lumps in a farm bill that in my opinion is going to devastate most of agriculture. And you're telling the American farmer he's got to take another 5 percent cut. That's really what we're doing here. Not to mention what Mr. Houston very graphically pointed out and the impact that it is going to have on some of these other areas.

I don't have any sympathy for some of these people that are saying that—who voted for the farm bill that are now saying after we've cut wheat 90 cents and after we've cut corn 50 cents, that we can't cut it another nickel. But I think there's a principle here. The principle is that each and every time we have had the opportunity to present farmers with a farm bill, they have had the opportunity to sign up prior to February 1. And I have absolutely every reason to believe that we're holding it up simply to cut it another nickel. And I think that's ridiculous.

I would like to point out or ask another question with regard to deficiency payments. I hear the word "shall" being kicked around here. Is it a shall or is it a may when it comes to advance deficiency payments?

Mr. DEWHURST. The 1986 crop is shall.

Mr. DASCHLE. It is shall?

Mr. DEWHURST. Yes, sir.

Mr. DASCHLE. There will be an advance deficiency payment of——

Mr. DEWHURST. But it is a question of the level.

~~Tom.~~

Mr. CONWAY. That's correct, Mr. Daschle. The advance deficiency payments—if we determine that deficiency payments will be made available with respect to 1986 crop they shall be—advance deficiency payments shall be made available. The question is, What level of the advance is to be made available?

Mr. DASCHLE. What level will it be?

Mr. CONWAY. I can't answer that question at this time, Mr. Daschle.

Mr. DASCHLE. Mr. Evans had an excellent point that I really wasn't satisfied with in terms of your answer either. That related to the $50,000 payment limitation. Can you give us a commitment that those who bump up to the $50,000 limit will be reduced that 4.3 percent as well?

Mr. DEWHURST. I am saying that I cannot represent decisions that have not yet been made. But one way to run the program is to leave the limit where it is, do all the calculations. The person who qualifies for $50,000 would then have that check discounted by the 4.3 percent of the Gramm-Rudman reduction. And that is one option we are looking at.

Mr. DASCHLE. And you haven't decided whether you are going to reduce it 4.3 percent if they bump up?

Mr. DEWHURST. There are different ways to do it. The Secretary, or Under Secretary has not been presented with the choices yet. They will be very quickly.

Mr. DASCHLE. I got to tell you, just so you understand, and I know that a lot of you do. Just in case you don't, that 5 percent for a lot of these people could mean the difference between whether they succeed or fail this spring. And the fact that they can't signup now and that they are being told to hold off until February 1 is virtually the last straw for some of these people. And it's just ridiculous.

I hope that somehow that message gets all the way through to the new Secretary of Agriculture because we've got a lot of explaining to do.

I thank the Chairman for his time.

The CHAIRMAN. I thank the gentleman.

Mr. Glickman.

Mr. GLICKMAN. Thank you, Mr. Chairman.

I just was informed that the president of our largest land grant university in Kansas, Duane Acker, was nominated as Under Secretary this afternoon.

The CHAIRMAN. Who is that?

Mr. GLICKMAN. Duane Acker, president of Kansas State University, was nominated the No. 2 man in the Department of Agriculture.

The CHAIRMAN. Is he a friend of yours?

Mr. GLICKMAN. He is a friend of mine.

I would like to pursue, if possible, trying to figure out, following up on Mr. Daschle's question for a moment. First of all, you were saying the Secretary will be presented options on how to meet the 4.3 percent, Mr. Dewhurst. What would those options be if you didn't take that 50,000 and discount it 4.3 percent? What other options would be offered to the Secretary besides that?

Mr. DEWHURST. Well, fundamentally, you would go through each program and see what the outlay impact would be of cutting the target price and the loan rate by the 4.3 percent. There is a possibility, of course, that some programs, because you would be cutting both target prices and loan rates, you would not yield very much of a savings in outlays. So, then you have to go back through program by program and see what the most reasonable program there is you can design that would still achieve that outlay reduction target. It would be a fairly laborious undertaking.

Mr. GLICKMAN. When is that decision going to be made?

Mr. DEWHURST. We hope to have it made in the next couple of days.

Mr. GLICKMAN. Will each program be treated the same way, wheat, corn, cotton, rice? Will they all be treated in the same way?

Mr. DEWHURST. We believe we have an obligation to apply the cut on a pro rata basis by crop, that we can't just pick and choose. But that is the outlay cut that I am talking about. And I cannot guarantee you that there might not be some differences in the terms of programs depending on their outlay.

Mr. GLICKMAN. So, one program may be treated in a much different way because of the fact that the outlay situation is different between the programs?

Mr. DEWHURST. Yes, sir, that is possible.

Mr. GLICKMAN. So, it may appear to some farmers and some people that certain crops are being treated preferentially because of that outlay problem?

Mr. DEWHURST. It could appear, yes, sir.

Mr. GLICKMAN. OK. That's going to be a real problem for all of us. I think that that's clear.

Mr. DEWHURST. That's why we have other options.

Mr. GLICKMAN. I want to go back to the loan rate for a moment. You are contemplating dropping the loan, let's say for wheat, from the current $2.40 level down another 4.3 percent?

Mr. DEWHURST. I said that the sequester order has in it a direct loan, something which is characterized as a direct loan limitation for the Commodity Credit Corporation, which envisions that we are going to make total loans with a smaller dollar value than we would otherwise have made. There are fundamentally two ways to do that. One is, as you say, go through the programs, take the loan rate, reduce it by 4.3 percent or some figure, depending on what you might do in the target price for a commodity that has a target price.

The other way to do it is to leave the loan rate the same, do all the calculations the same. But when you issue the loan, you are going to discount the check by 4.3 percent. It produces a somewhat different result to the producer in some cases.

Mr. GLICKMAN. How does it affect his deficiency payment treating it those two different ways, discounting the check or dropping the loan? Is the farmer in worse shape if you discount the check rather than if you drop the loan?

Mr. DEWHURST. I am not sure. If you discount—well, if you drop both the target price and the loan rate by the same amount, the spread stays the same. The deficiency payment theoretically stays the same. The loan is a bit smaller.

If you leave the terms of the program the same, if you calculate both, you discount them both, it gets a somewhat smaller deficiency payment—the way I work it out in my own mind. It also gets a somewhat smaller loan.

So, it does seem to me—there may be other problems in the program-by-program way of doing it, but theoretically he would get a somewhat higher deficiency payment.

Mr. GLICKMAN. Is there any reason why you would not discount the target price if you did discount the loan, or reduce it by 4.3 percent, either way you handled it? That is, it would seem to me that, if you dropped the loan 4.3 percent and not the target price, you are just going to pick that up in extra deficiency payments, right?

Mr. DEWHURST. That's right, I——

Mr. GLICKMAN. Because that part of it is just extra to be paid. It's not even subject to the payment limitation.

Mr. DEWHURST. Yes, sir. I mean, the deficiency payments, they cause the vast majority of the outlays in the Commodity Credit Corporation.

Mr. GLICKMAN. So, it wouldn't be prudent for you to drop the loans if you're not going to drop the deficiency payments?

Mr. DEWHURST. That's right. That would ultimately lead to an actual increase in outlays in many cases.

Mr. GLICKMAN. I am confused again about—I am sure you're confused, too—but an option on how to handle the loans, whether you discount them or you drop them. And I would just hope that you err on the side of producers, because you could be talking about a big difference in bucks for some producer.

Mr. DEWHURST. That's why we are working so hard to look at the impacts of these things. We want our policy people to understand as best we can tell them what the impacts are of all these things.

Mr. GLICKMAN. And you will have your decisions out by when, the end of this week?

Mr. DEWHURST. We hope to. I work for people. I cannot guarantee their actions. All I am saying is, we are doing our best to get everything out very quickly.

Mr. GLICKMAN. Mr. Chairman, I promised to yield to Mr. Bedell. Are you going to give him some additional time as we go around?

The CHAIRMAN. We'll come back. We have one more and then we will come back to Mr. Bedell.

Has the gentleman concluded?

Mr. GLICKMAN. Yes.

The CHAIRMAN. Mr. Schuette.

Mr. SCHUETTE. Thank you, Mr. Chairman.

Many of the questions that I was going to ask members of the Department have been asked by my colleagues here today. So without being repetitive, I will pass on specific questions at this point in time. But let me make a comment.

Some of the discussion here today with respect to target prices and deficiency payments and early signup and early decisionmaking so that farmers, producers can make decisions in a businesslike fashion, I think, are at an absolute priority for people in production agriculture today. And I think that, as my colleague from Kansas, Mr. Glickman, mentioned, we ought to err on the side of the producer at all cost and in every way. Certainly in the decisions of deficit reduction, the Department, given the tough times in agriculture today, ought to do all in its powers—I know the committee will do all in its power—to avoid and minimize hardships to producers, particularly with respect to income transfers to producers, be it on other, dairy side or the target prices and the loan rates.

I think it is absolutely essential that we take those types of precautions, given the difficult times in agriculture.

I yield back the balance of my time, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

We have our distinguished colleague, though she doesn't serve on this committee, and has been very helpful to us and works with us, Virginia Smith of Nebraska. At this time I will yield to our colleague, Mr. Bedell. When he concludes, we will yield the balance of the time to Mrs. Smith.

Mr. BEDELL. Thank you, Mr. Chairman.

Mr. Dewhurst, have you published figures yet on the amount of uncommitted stocks that you are going to have of dairy, rice, wheat, corn, oil seeds, and so on? The information is important because of the section 416 formula.

Mr. HALL. In terms of projections, we will have updated inventory, uncommitted inventory stocks. They are estimated as part of the support for the budget. However, there are normal accounting reports that are put out on a monthly basis by the Commodity Credit Corporation to indicate what those stock levels are.

So, that happens as a matter of course, Mr. Bedell.

Mr. BEDELL. Would you send us copies of what you are now projecting for your uncommitted stocks?

Mr. HALL. Yes.

Mr. BEDELL. When could we get those?

Mr. HALL. You should be able to get those, I would think, tomorrow, if you're just looking——

Mr. BEDELL. Great.

Mr. HALL. Could I ask, Mr. Bedell, what projection you're interested in, how far down the road? We will give you——

Mr. BEDELL. For 1986, the section 416 program, as I understand it, calls for 10 percent of the uncommitted stocks. We need to know what those are so we know what's going to happen.

Will you send that to me tomorrow if you could?

Mr. HALL. Yes.

Mr. BEDELL. Just a minute.

Do you have what you project for future years, too?

Well, if you have them, would you send them?

Mr. **Dewhurst**. There will be some projections with a budget, also, I think, through 1987.

Mr. **Bedell**. Thank you.

[The information follows:]

SECTION 416 DISPOSITIONS OF CCC UNCOMMITTED INVENTORY

MR.BEDELL. Section 1109 10(B) of the Food Security Act of 1985 requires that at least 500,000 metric tons of grains and oilseeds from CCC's uncommitted stocks or 10 percent of CCC stocks of grains and oilseeds, be made available for disposition, whichever is less. A similar provision is contained in the 1985 Act for CCC's uncommitted stocks of dairy products. Would you please provide a table indicating CCC's current uncommitted stocks and estimates of CCC's uncommitted stocks at the end of fiscal years 1986 and 1987?

MR. HALL. I will submit for the record a table showing the latest uncommitted stocks and estimates of CCC uncommitted stocks at the end of fiscal years 1986 and 1987. I want to emphasize that these quantities are highly tentative pending a final determination of the Payment-In-Kind deficiency and diversion commitments and export enhancement program commitments. In accordance with the 1985 Act, a final estimate of the uncommitted stocks available at the end of the fiscal year for such dispositions, will be made by the Secretary prior to the beginning of the following fiscal year.

[The information follows]:

CCC Uncommitted Inventory

(quantities in millions)

Commodity	Unit of Measure	CCC Uncommitted Inventory Jan. 1, 1986	Estimated CCC Uncommitted Inventory Sept. 30, 1986	Estimated CCC Uncommitted Inventory Sept. 30, 1987
Corn	bushel	391.4	159.2	576.2
Grain Sorghum	bushel	120.9	123.0	167.0
Barley	bushel	40.5	71.0	98.9
Oats	bushel	2.0	--	--
Wheat	bushel	380.1	269.3	317.4
Rye	bushel	14.8	18.9	19.0
Rice	cwt.	42.4	1.4	14.0
Raw Cane Sugar	pound	353.2	--	--
Refined Beet Sugar	pound	81.8	--	--
Honey	pound	108.3	159.0	63.0
Soybeans	bushel	112.9	154.0	290.6
Butter	pound	130.0	--	--
Cheese	pound	602.0	635.3	317.2
Non-Fat Dry Milk	pound	886.1	651.4	297.8
Upland Cotton	000 bales	182.0	1,311.0	5,911.0
ELS Cotton	000 bales	13.5	7	4

Mr. **Bedell**. Mr. Chairman, with your permission, I would like to yield the rest of my time to the gentlelady from Nebraska.

The **Chairman**. I thank the gentleman.

We welcome our distinguished colleague. She is recognized at this time.

Mrs. **Smith** of Nebraska. Thank you, Mr. Bedell, and thank you, Mr. Chairman.

There is a report that the loan rate for corn will be dropped to $1.84. Is this a correct report?

Mr. **Dewhurst**. Not to my knowledge, but I have not discussed with the Secretary his conversations with individual Members of the Congress.

Mrs. **Smith** of Nebraska. I see. Thank you.

Now, from the record, under 256b of Gramm-Rudman under Commodity Credit, section 4b, it points out that with income protection programs you will administer them to minimize uncertainty as to the scope of benefits, to minimize any instability in market prices, and to maximize normal production and marketing relationships.

Could you comment about how you are trying to do that?

Mr. **Dewhurst**. Yes; it seems to us that the best we can do at that, when one is administering a sequester order under Gramm-Rudman, is to come up with the most equitable and simplest possible system so that producers will know where they stand for the crop-year in question very clearly, and so producers will have confidence that they are being treated equitably compared to all other producers in different crops.

As we do the work that we have to do to implement the sequester order, we are trying to take those factors into account and make sure we are at least aware of any instances—whether required by the law or not—that would cause problems in any of those respects.

Mrs. **Smith** of Nebraska. Thank you. But let me just add that the producers across Nebraska don't feel secure at all about where they stand. They don't feel secure about when they are going to get any information about the farm bill. And it's soon time for planting. We hope that you will have it with all possible speed.

Thank you for giving me this opportunity.

The **Chairman**. I thank the lady. She is always welcome in our committee.

I have some questions that have been submitted by other members and some that I have, if you don't mind. One of them that has been submitted, I don't know if you have touched it or not.

What will be the effect of Gramm-Rudman on the availability of State allocations to the various Farmers Home Administration loan programs? And when will the allocations be made?

Who is our Farmers Home——

Mr. **Dewhurst**. I think those allocations have in fact been made, Mr. Chairman, but I will let Mr. Calhoun talk to that.

Mr. **Calhoun**. Mr. Chairman, that's true. Allocations have been made. However, there may have to be some adjustments when we know what the final figures are under Gramm-Rudman.

The **Chairman**. So, you have made the allocation but could go back and reduce?

Mr. Calhoun. Yes. We may have to make some adjustments.

The Chairman. A further question is on the signup. If a contract has been signed before sequestration, it is not subject to Gramm-Rudman that fiscal year. The question is, when exactly is the contract considered to be final, when the program is announced and farmers start planting, when signup begins, or when signup is closed and the USDA accepts the contract?

Mr. Dewhurst. When the contract is entered into, when USDA accepts it.

The Chairman. When the USDA accepts the contract.

When will the Department notify the producers of the decision on reduced benefits, like if you have hit the $50,000 and you were reduced by whatever, 4.3? And how do you anticipate, by letter, by press release, by rumor, by word of mouth?

Mr. Dewhurst. All of the above.

The Chairman. Have you formulated a plan now how a person would be advised?

Mr. Dewhurst. Obviously, the first thing is, he is going to be advised when he comes in to deal with his crop to sign a contract. We will put out some information prior to that time so that county offices can make people aware. Now, whether that will take the form of TV announcements or published documents or whatever, I just can't say at the moment. But there will be a major effort to make sure that all the producers are aware of what is happening under the Gramm-Rudman legislation.

The Chairman. See, because we have a problem there. All together, there is a problem, for example, unrelated to this hearing but back to the farm bill. But there is a problem on inadvertent omission or inclusion, cross-compliance in the legislation. And ASCS offices didn't know. Rumors start, interpretation by the Department. We don't know where we are.

Another area was the Department apparently—well, I guess it's the mail, but not every ASCS office receives the notice the same day. So, we get the blast here. This county received the notice, but the next county didn't. So, that's one of the areas that you can't rely on. You need a—when I was in the artillery they called it a time on target. Every gun fired regardless of the distance, the time, so they would all hit the target at the same time.

Mr. Dewhurst. It's difficult when you have a county office system to be sure everybody gets exactly the same word at exactly the same moment. ASCS, you know, the way they communicate instructions is to use electronic mail to their State offices. And then the State offices telex their county offices. Presumably that system should work, you know, and everybody should get the word very quickly. But there seem to be problems now and again where somebody doesn't get the word, or there is some delay in the process. We try to avoid it.

Mr. Bedell. Mr. Chairman, will the chairman yield?

The Chairman. I yield to my colleague.

Mr. Bedell. You said, "when the USDA accepts the contract." I assume if USDA puts out a contract for somebody to sign, and then the farmer comes in to the office and signs it, I assume that is a valid contract. Do I understand it correctly?

Mr. **Dewhurst**. Yes, assuming, you know, both sides sign the contract, the farmer and the ASCS. When you do that, you've got a contract.

Mr. **Bedell**. The one you submit will be signed by the Secretary, won't it? It would be a hell of a note if you're going to present him a contract that you haven't signed, and then he signs it and you say: "Yea, but we haven't, even though we proposed it, and we're not going to do it now."

Mr. **Conway**. Mr. Bedell, when you submit a contract there are a number of things that have to be filled out by the individual producer. The producer signs the contract. Then the contract is executed by the local county committee.

Mr. **Bedell**. OK——

Mr. **Conway**. And that then becomes a valid contract.

Mr. **Bedell**. Thank you.

The **Chairman**. Gentlemen, a further question: Is the Department going to cut an individual's total deficiency payment, or will it cut the payment rate per unit of commodity?

Mr. **Dewhurst**. Well, as we have said——

The **Chairman**. In other words, are you going to reduce it, let's say, $15,000 by 4.3, or if he gets the maximum, the $1.98 per bushel, deficiency payment, let's say?

Mr. **Dewhurst**. As we have said, the decision, that decision has not yet been made.

The **Chairman**. That is still to be made.

Mr. **Dewhurst**. Our preference is for the simpler system, but it has not yet been made.

Mr. **Bedell**. Would the gentleman yield?

The **Chairman**. I yield.

Mr. **Bedell**. I understood you to say that the reduction would be in the amount of the check that the farmer gets. That's the question, I think: Are you going to lower the target price or are you going to simply reduce the check that the farmer gets?

Mr. **Dewhurst**. I said there are two basic ways to do it. One is to lower the rates. And the other is simply to discount the check.

Mr. **Bedell**. But either way, it lowers the amount of money that the farmer gets by that 4 percent.

Mr. **Dewhurst**. That's right, it may have slightly different results, as we discussed. All I am saying is, the Secretary and others have not yet signed a piece of paper saying that's precisely the way we're going to do it.

Mr. **Bedell**. Will the gentleman yield further?

The **Chairman**. I yield.

Mr. **Bedell**. I am sorry to take so much time. But the question is, you got a $3 target price and a $1 deficiency payment. It's the $1 deficiency payment that is reduced, not the $3 target price.

Mr. **Dewhurst**. That's one of the options.

Mr. **Bedell**. What other option is there?

Mr. **Dewhurst**. Reduce the target price, to go through every program. We talked about that since the beginning of the hearing. There is an option to go through every program and try to adjust the terms of every program. I have said that is not the preferred option because it is very difficult to do and it becomes almost impossible to track how much money you would actually save. But I cannot commit my policy officials to a decision.

Mr. BEDELL. But the 4 percent applies to the $1, not the $3?

Mr. DEWHURST. Yes, it applies to what he's due.

Mr. BEDELL. OK.

Mr. DEWHURST. I'm sorry. Yes, sir.

The CHAIRMAN. We got that cleared up.

Now the next question is: Will the reduction be made by commodity or by individual? In other words, does Farmer Jones get cut 4.3 or does he get a 4.3 cut in cotton and 4.3 in feed grains?

Mr. DEWHURST. The cut is made by commodity. We will try to allocate the cuts by commodity. So, to the extent that a producer is involved in more than one commodity, he——

The CHAIRMAN. He will be cut by the commodity.

Mr. DEWHURST. Yes, sir.

The CHAIRMAN. So, Farmer Jones could get cut 8.6 rather than 4.3 if he's involved in two programs?

Mr. DEWHURST. Well, he could get cut 4.3 percent on each commodity——

The CHAIRMAN. Which makes 8.6——

Mr. DEWHURST. I am not sure if you add that together what you've done is a net income——

The CHAIRMAN. Percentage-wise, the income may vary, but the percentage in each commodity would be 4.3.

Mr. DEWHURST. Yes, sir.

The CHAIRMAN. I think you mentioned partly this next question that I have here. How will Farmers Home implement its reduction in administrative costs including personnel and at the same time meet the farm bill's requirement to provide prompt action on farm loan applications this spring from an ever-increasing barrage if they don't have enough personnel and so on?

Mr. DEWHURST. Farmers Home salaries and expense money is subject to the sequester. Farmers Home also has authority to use money from its revolving fund, its loan revolving funds, to finance its administrative operations.

We are examining the Gramm-Rudman law to see if it is permissible to use that source of funds if necessary to beef up the staffing in Farmers Home. We don't know the answer to that question.

The CHAIRMAN. I have some information from the Budget Committee that under another law a Government employee's salary cannot be reduced once it is in effect.

Mr. DEWHURST. Certainly not without cause, as a disciplinary action or whatever.

The CHAIRMAN. Like if someone got a 3-percent increase, you can't go back and take it away.

Mr. DEWHURST. No, that's correct. Yes, sir, you're right.

The CHAIRMAN. Under an extension of that law—and I wasn't very clear, but if you're acquainted with it—is it the same application that you can't reduce, you can't go fire someone without cause, regardless of Gramm-Rudman?

Mr. DEWHURST. Well, you can have a reduction in force, under which you would let people go permanently. Agencies do that around the Government fairly frequently because they are short of workload or short of money. The problem under Gramm-Rudman is that reduction in force costs money most of the time because you have to give severence pay and various sorts of checks to those people. So, when people like Don Houston talk about what they have to do under Gramm-Rudman, they most frequently talk of furlough. Now, a furlough is simply a situation where you lay an employee off for several days or a week or whatever it takes. He is not fired. He is simply laid off without pay. He is brought back at the end of the time involved, to the same job and the same grade level, and so forth, that he had when he left. But, of course, from the employee's point of view, he has been out of work for 1 week or 2 weeks or whatever it is, and he has not been paid for that time.

The CHAIRMAN. Now, I am not acquainted with the technical process in the furlough. But you have to write a letter or terminate his accounts and disassociate him from the agency, and so on, and then bring him back? How is that technically handled?

Mr. HOUSTON. Mr. Chairman, we are going to implement a furlough. I have looked into it a little bit. We will have to notify all 9,000 of our people, give them prenotice that they will be put on furlough. We give them a general notice. Then each individual will then be followed up with a letter from our personnel director and given opportunity for a hearing. So, again, all 9,000 people will be given the opportunity to have an individual hearing. We hope to set up a number of phone lines into our personnel office in Washington to carry out that requirement. Once that is all done, then we can carry out the furlough. But there are some very specific personnel regulations that we have to follow.

The CHAIRMAN. What are you going to do if I advise all 9,000 to ask for a hearing?

Mr. HOUSTON. Well, we got a problem.

The CHAIRMAN. We'll see if we can't help you.

Mr. STENHOLM. Mr. Chairman.

The CHAIRMAN. Mr. Stenholm.

Mr. STENHOLM. Would you yield at that point?

The CHAIRMAN. Yes.

Mr. STENHOLM. The first time around, I was a little tough on me and brought the President into it, and the chairman kind of put it back on both of us in a way I wasn't real comfortable with.

I have further questions for Dr. Houston.

Mr. HOUSTON. OK.

Mr. STENHOLM. I think you got off way too easy with the answer you gave me and the answer you just gave to the chairman. I want you to answer a few questions for me. There is $362 million you have got in your budget. How much goes to salaries? How much goes to expenses?

Mr. HOUSTON. About 90 percent of it is salaries. Then there is another $17 million in travel. Beyond that, there are supplies, laboratory supplies, things of that nature, rent, automobile costs, things of that nature. But our main cost by far is personnel.

Mr. STENHOLM. OK, if the salaries are 90 percent, and if you extend the same management decision to your operation that our farmers, small businesses, and now Members of Congress are having to do with having to cut twice as much from our budgets as you're being asked to cut from yours. In the first examination, I didn't think I could do it without laying off at least one person.

Then I went back a second time. And I determined that by cutting out 50 percent of my travel and all of the printing costs in my office, I didn't have to touch people.

Are you prepared to say today that you have done an exhaustive study that would stand the scrutiny of a hearing of the appropriate subcommittee in this in going over detail by detail, that you can't cut 4.3 percent from your budget without doing it the way you described it to me the first time?

Mr. HOUSTON. I think we could probably make more cuts, but in doing so I have to keep in mind the program integrity. I can cut out all travel, and we won't have any supervision in plants. And I can cut out a number of——

Mr. STENHOLM. I didn't say cut out all travel. I am saying, are you prepared to state that every trip you or anyone else makes is absolutely vitally necessary to the program, so that you would first create the horror story you told me the first time?

Mr. HOUSTON. I think we are prepared, if there is a hearing, to come forth in detail as to how we reached our decisions and lay out where out moneys are and what they are spent for.

On the other hand, too, you know, our hands are somewhat tied because of the instructions that came forth in the 1986 appropriations conference, which does require us to pass those costs evenly across all parts of the program. That really doesn't give the Secretary much authority to pick and choose where he might place priority in spending.

Mr. STENHOLM. Again, I would ask. So many times we say we can't do it. And I know as a farmer I have said I can't cut my cost any further. But I have done it, and I can do it again if I have to. And I didn't quite like the way your first answer comes across, because it's typical of what we all do, protect our turf.

Maybe you've done it. And I will give you the benefit of the doubt today. But I think, Mr. Chairman, that it is some of this type of scrutiny that we are going to have to be involved with to protect the integrity of the program. And I accept that. I am trying to make a point, not questioning that you haven't done a superb job, Dr. Houston.

Mr. HOUSTON. Mr. Stenholm, the last thing I want to do is create problems for the meat and poultry industry and our producers.

Mr. STENHOLM. I am afraid we are about to do it from what you described that you're going to do under Gramm-Rudman.

Mr. HOUSTON. But I have to—remember, we have a mandatory program. I have to live with that. We have got to look at every bird and every animal. We have got a very extensive residue testing program. We are faced with the Anti-Deficiency Act. If I overspend, I am subject to removal from service and imprisonment. I am not going to violate the Anti-Deficiency Act.

We have not hired a person in this agency, except for some very minor exceptions, since this fiscal year. And we are continuing to turn it down and turn it down. I will be 600 employees under by the end of this fiscal year than what we started with.

Mr. STENHOLM. Before Gramm-Rudman.

Mr. HOUSTON. After it.

Mr. STENHOLM. After Gramm-Rudman.

Mr. HOUSTON. Yes.

This is a public health program. And I don't think that I can just arbitrarily cut back certain areas, because it will affect program integrity. And I don't intend to dismantle the meat and poultry inspection program.

Mr. STENHOLM. My purpose of this line of questioning was only to say, no matter how good a job, how thorough you think you have been, in looking at some things, you would be surprised. I was surprised myself in what I found by going back a fifth time and looking. I think this is what we are really needing to do now.

If I may have one additional question, Mr. Chairman, at this time along the same line.

The CHAIRMAN. The gentleman may proceed.

Mr. STENHOLM. Talking about lowering farm income, you know, a 4.3 percent cut off a target price is going to come straight out of farm income. I am looking at the budget now. Why could we not eliminate farm ownership loans for the remainder of this year? Can you do this? That is $638.2 million in farm ownership loans, at a time when we are having problems paying for the more important programs. Is this possible?

Mr. DEWHURST. The administration has repeatedly proposed to eliminate those loans.

Mr. STENHOLM. But instead of making some of the cuts that are being made now in meat inspection or, more importantly, farm income, perhaps we should prioritize cuts. Is that possible? Can you do that? If not, why not?

Mr. DEWHURST. Well, of course, you would have to pass a law to do that.

Mr. STENHOLM. All right.

Mr. DEWHURST. Sure, if you pass a law, that is a doable thing. That is an alternative.

Mr. STENHOLM. But you can't do it without us passing a law?

Mr. DEWHURST. No, sir. We have a minimum level for those loans in the new farm bill.

Mr. STENHOLM. Under the law.

Mr. DEWHURST. Yes——

Mr. STENHOLM. So, if that were to have to be changed, we would have to do that?

Mr. DEWHURST. Yes, sir.

Mr. STENHOLM. I mean, this is one——

The CHAIRMAN. Would the gentleman yield? The gentleman might recall on the budget task force that this was considered and was reduced. And then available money was found in another source and it was brought back. But it certainly is not beyond our reach for necessary cuts.

Mr. STENHOLM. That just confirms—if we had made that decision at that time, we would find ourselves right back in the same spot as we are now.

The CHAIRMAN. We'd be in the same spot as we are now regardless.

Mr. STENHOLM. But the chairman made the point earlier that we have always met our budget numbers as it has been given to us.

The CHAIRMAN. That we have.

Mr. STENHOLM. And we are going to do it again. But you're saying in this case, which it makes so much common sense to me that, we got our priorities. But yet we would have to legislate those priorities. Now we get into the problem to make these priority cuts by March 1 gets a little tough.

I have got some other questions, but I would like the chairman to have——

The **Chairman**. I have a followup question that I have here on that.

Mr. Houston, you mentioned that, absent necessary inspectors, a plant might have to shut down, since the inspector wasn't available, and you can't operate without the inspector. Is that correct?

Mr. **Houston**. Yes, sir. I made that statement.

The **Chairman**. Is this a worse-scenario projection or just a possibility? At what stage in the process did you reach that conclusion?

Mr. **Houston**. Well, I think that we may reach or see that happening this fiscal year as our hiring freeze continues and the number of personnel continue to decline. There are going to be occasions when inspectors are sick or retire, and there is simply no one to fill the job. We are going to be faced with some very difficult choices. At the present time, we are detailing supervisors back into line jobs. We are detailing people from some of our Washington positions out to the field. We are doing that as long as our travel money holds up. But that consumes travel money very quickly because of per diem payments that have to be made.

So, I feel that we will probably see some disruption to the industry before the end of this fiscal year.

The **Chairman**. This is just me speaking, but there is a possibility that little old Lone Star Slaughterhouse in Ottumwa, IA, can be told: We don't have an inspector; you have to shut down for 3 days. And 3 days puts them out of business, without work.

Mr. **Houston**. I have already told people that. I told a packer in Pennsylvania who was in my office 2 weeks ago who was complaining because we don't have enough inspectors to let him operate at the capacity he wants to operate, and I told him we just don't have the people.

The **Chairman**. I wish I were at liberty to say what I would like to say, but I have my responsibility to be fair.

We had another further question. There was a rumor circulating that the Extension Service would take beyond the cut, that it had been singled out for more than the norm cut. Would you verify or put a stop to that rumor, one of the two?

Mr. **Dewhurst**. There was a rumor, also some press reports, that the 1987 budget, which the President will send to the Congress next week, would discontinue Federal funding for the extension system. That rumor is not entirely true.

Mr. **Stenholm**. Mr. Chairman, how much of it is true?

The **Chairman**. Well, let me say—and I said this was not a forum to discuss pro or con on the Gramm-Rudman. And this is not with intent to do that. But looking at what you project even for 1986 with the 4.3, and as we look at 1987, the President's initial proposal to phase out all the programs in agriculture will be carried out if Gramm-Rudman lives to its destined end. So, in effect, all these programs will be abolished because, if you're going to have to shut down a small slaughterhouse in 1986, you're not going to have a program in 1988.

Mr. HOUSTON. I think that, unless there are some changes that permit us to establish revenues from other than appropriated source and not make them subject to Gramm-Rudman, we are in trouble. I think that distinction has to be made along the line so that, if we are able to find other sources other than appropriated funds, they would not be subject to spending levels. I think that is a critical question.

The CHAIRMAN. The only area you can go there is either direct, complete fee system or additional taxes, additional revenue, one of which the President says he will not accept under any circumstances. The other one seems to be one of his favorite projects. But I guess for agriculture the bells are tolling and the grave is dug. And the victim is without a doctor. We are looking at the finale unless something else happens.

You're the technocrats. You're the experts in this area. Any policy or philosophy is not attributed to you. That we understand.

To the extent that you are able, we appreciate your frankness and your cooperation.

Mr. Stenholm.

Mr. STENHOLM. I have two or three more questions.

The CHAIRMAN. The gentleman may proceed.

Mr. STENHOLM. The Foreign Agricultural Service, what are some of the alternatives for 1986, and what might we be looking at in 1987?

Mr. DEWHURST. Well, FAS, of course, is subject to the sequester. There are separate line items in our budget for the market development program and for the attaché system and for the analytical work that they do here in Washington. So, the cuts will be prorated among those line items. It means there will be slightly less money available for the Federal share of the market development program that is shared with the industries.

I have not become aware of any significant problems in staffing in FAS, so I assume that, in terms of the in-house cost, they are going to be able to reduce some of their expenditures and get along for the remainder of this year.

For 1987, that again, I cannot make that budget public; but FAS will be under a certain amount of stress, as we all are, to get more program out of less money.

Mr. STENHOLM. How will Gramm-Rudman be applied to a program which is now financed through user fees, for example cotton classing?

Mr. DEWHURST. Gramm-Rudman has the effect of cutting spending authority. Fee-supported programs generate spending authority. So, you will find in the sequester order reductions. They call them section 401 reductions, because that's the section of the Gramm-Rudman legislation that is applicable. You will find reductions in those programs.

It means we will provide a service up to a point. When we hit that point, we will not be able to go beyond it without some action by the Congress or some legal opinion.

Mr. STENHOLM. What if the user——

The CHAIRMAN. Will the gentleman yield?

Mr. STENHOLM. I would be happy to yield.

The CHAIRMAN. This is one of the programs, and the fallacy in this whole process is that the farmer pays for the cotton classing, therefore as long as there is a bale of cotton and he's going to pay for the classing, classing should be available. But under what we are doing or have done and they will do, the personnel will be reduced. Therefore, the personnel will not be available even though the producer is willing or is forced to pay under the program.

Is that correct?

Mr. DEWHURST. Yes; I mean, I am not so sure there will be less personnel, but if there is an increase in demand, there may be a furlough or some action. The service may not be there when the producer wants it. That's a Government-wide decision, by the way, and one that I understand was ultimately decided by the General Accounting Office as to how that was handled under Gramm-Rudman, all these different user fee kind of programs.

Mr. STENHOLM. If there are surplus dollars in a user-paid program, what happens to the surplus dollars? Is that applied to the deficit?

Mr. DEWHURST. Yes.

Mr. STENHOLM. And you cut back service even though the user is willing to pay for it?

Mr. DEWHURST. Yes, sir.

The CHAIRMAN. I don't think anybody has read the whole Gramm-Rudman thing. It may go to their campaign fund for all we know, the surpluses.

Mr. STENHOLM. I hate the way the chairman keeps explaining it. [Laughter.]

The CHAIRMAN. Has the gentleman concluded?

Mr. STENHOLM. I have one last question. If we assume the worst and we get into a political impasse, as we have been in since I have been in the Congress, or at least since 1981, and we do nothing and $38 billion is sequestered next year under this law, which is what will happen according to current numbers that I have seen, what will be the result on the agricultural function of the budget?

Mr. DEWHURST. Well, that's three times the current sequester. You're talking 12, 14 percent reduction. Many programs simply become unmanageable at that depth.

Mr. STENHOLM. Even programs that we have user fees and which the producers themselves are paying for it, will this legislation gut them?

Mr. DEWHURST. The legislation applies to those programs, yes, sir.

The CHAIRMAN. I have one more question that has been submitted to me, on storage. Probably we are at the top of storage because of the commodities we have in surplus. Now, if those funds are reduced, what will be the Department's position with additional acquisition of a commodity?

If your storage is full and you're out of money——

Mr. DEWHURST. It's one of the issues we're looking at.

Let me ask Mr. Hall.

Mr. HALL. Yes, Mr. Chairman, we are still studying that one. Obviously the corporation in the managing of its programs and in terms of still operating as a corporation must find a place to store the commodities it takes over under price support and to move commodities under Public Law 480, and so forth. We can make a good-faith effort to reduce rates that are offered by the industry. You know, we operate on an offer-rate system for commercial warehouse space. That is one option. No decision obviously has been made on that.

The CHAIRMAN. If you have no funds available to ask for additional bids, what happens then?

Mr. HALL. Well, the funds are available within the Corporation's borrowing authority. I am not sure it's a question of fund availability as it is one of the ability to pay those funds out. So, we would have some very hard decisions to make with respect to what we do with commodities in the store.

The CHAIRMAN. We have a colleague from Oklahoma who has arrived. The chair would be happy to recognize the gentleman for one fairly long question.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

I suppose that I really at this point don't have any questions. I would only say that I think we all recognize sacrifices certainly are not only going to be called for but demanded. Virtually everyone is going to be affected in agriculture. I think this comes at a particularly difficult time, given the overall philosophical approach that was taken at the insistence of the administration in the 1985 farm bill. I particularly note as far as the grains are concerned, the U.S. Government now follows a policy of deliberately driving down the market price. This particular approach, of course, means that there will be even greater exposure as far as the U.S. Government is concerned and the Treasury, which is kind of an interesting situation when one views the fact that we are trying to now cut back on the budget deficits. We are having to cut the amount of money that is available to agriculture but at the same time we increase the cost of the farm program.

I would simply say, Mr. Chairman, that as we proceed through this year and the true impact of Gramm-Rudman comes home to particularly the agriculture sector and our farmers, that Gramm-Rudman may in fact turn out to be an incentive to change our direction and change our policy. We will be seeking instead of looking at implementing a philosophical approach and how that might be implemented over the next 10, 15, or 50 years in relationship to what happened with what Franklin Roosevelt did, instead we might be looking in the short term as to how we could reduce the cost of the farm program, strengthen market prices for our farmers, and provide our farmers some hope over the next 4 or 5 years.

While many people who haven't looked closely at the impact of the 1985 farm bill may think what I am saying sounds inconsistent, it is entirely consistent with what I would hope would be our goals and our objectives. I recognize that the Reagan administration's goal in agriculture is not consistent with strengthening market prices, reducing surpluses and providing farmers hope over the next 4 or 5 years. But I certainly think that it should be the goal of this committee. I think that, as we look at the impact of Gramm-Rudman on money that is available to agriculture, I would say, Mr. Chairman, that it is a necessity that we reconsider much of what we have done and particularly those commodities that are in the greatest amount of difficulty.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Does the gentleman from South Carolina wish to make a statement?

Mr. TALLON. No, Mr. Chairman, thank you.

The CHAIRMAN. We thank all of you very much. I assure you that within the constraints you had and the available information, this certainly has been a productive session for us. We have invited OMB for next week. After that we may revisit with you for additional information or rebuttal to OMB.

I say this personally—I don't want any comment from you at this point. But if there is a difference between you and OMB and you need help, you let us know. If there are provisions which USDA feels should be implemented or can be worked out but the pressure from the other side is coming contrary-wise, we are available. We are on your side in that respect, provided they are commensurate with our policy and our mandate from the people.

With that, we thank you and all of your colleagues, Mr. Dewhurst.

Mr. DEWHURST. Thank you.

The CHAIRMAN. The committee will stand adjourned.

[Whereupon, at 4 p.m., the committee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by
Stephen B. Dewhurst
Budget Officer
United States Department of Agriculture
Before the
House Agriculture Committee
January 29, 1986

Mr. Chairman, it is a privilege to be here today to talk with the Committee about the implementation of the 1986 sequester order under the new Gramm-Rudman legislation. I have with me today representatives of some of the USDA agencies which are impacted by the Gramm-Rudman cuts including the Agricultural Stabilization and Conservation Service, Farmers Home Administration, Food Safety Inspection Service and Soil Conservation Service. We also have a representative from the Office of the General Counsel.

As the Committee knows, there are many details which have not yet been resolved. We will do our best to answer your questions to the best of our ability. I have attached to this statement some materials which we hope will put the matter in perspective. And with the Committee's permission, I will briefly review some of the significant points.

As you know, the basic calculation in establishing the funds subject to sequestration are done by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO). The law specifies that $11.7 billion must be saved in FY 1986. The total reduction in USDA spending is just under $1.3 billion. The first table attached to this statement shows the basic government-wide calculation. The most significant figures on the table are those that show that total estimated Federal spending for 1986 is $997 billion of which only $105 billion in non-defense spending is subject to the across-the-board reduction necessary to save $11.7 billion specified in the legislation. USDA represents about $29 billion or 28 percent of this sequesterable base. The resulting USDA cut of $1.3 billion is shown on the second table along with the cuts for the other Federal Departments.

Under the Gramm-Rudman legislation, the necessary reductions are to be allocated equally on a pro-rata basis to each of the Department's programs, projects and activities. For FY 1986 the Gramm-Rudman legislation further specifies that the definition of the term "programs, projects and activities," is to be defined by the Committees on Appropriations. We are also attaching to this statement a copy of the Gramm-Rudman statement in this regard and a copy of the language in our FY 1986 Conference Report on Appropriations which specifies the definition of this term. The definition provides very strict guidelines on how the cuts are to be allocated.

The next table illustrates how the Gramm-Rudman 1986 reduction splits between price support programs and other programs within the Department. About $824 million of the reduction is to be made in crop year 1986 price support programs under the new Farm Bill. The remaining reductions come from other USDA programs. The final table shows a reduction in spending authorities on an agency-by-agency basis.

It is important to note that significant amounts of USDA spending are exempted from the 1986 sequester. These exemptions include our Food Stamp, Child Nutrition, and Women Infants and Childrens programs. Also exempted are about $14 billion in Commodity Credit Corportation (CCC) outlays which will be made in support of 1985 crop programs.

As a final note, we should tell you that all of our agencies are working to find ways to implement these reductions with as little disruption as possible. Departmental staff have been reviewing both the Farm Bill and the Gramm-Rudman legislation to find the best and most equitable way to apply the reduction to farm programs. Other agencies are making adjustments in spending plans with the objective of implementing the cuts with as little disruption as possible in normal program operations. Some of those agencies are represented here today at at the witness table and we hope to be able in the very near future to provide the Committee with a more comprehensive analysis of the Gramm-Rudman impact.

Mr. Chairman, we will be glad to answer your questions.

(Attachments follow:)

Calculation of FY 1986 Sequester

($ Billions)

	Defense	Non-Defense	Total
Exempt from sequester...........	$ 163	$ 483	$ 646
Programs with automatic spending increases............	--	49	49
Programs with special rules.....	--	87	87
Programs subject to across the board cuts................	109	105	214
Total outlays.................	273	724	997

Overall Savings by Department

($ Millions)

Agriculture	$ 1,263.7
Education	170.9
Energy	333.7
Health and Human Services	1,036.2
Interior	202.1
Labor	171.6
Transportation	373.4
Treasury	373.6
NASA	223.2
OPM	597.0
Other	1,358.9
Total, Non-Defense	6,104.3
Defense	5,623.2
Total, Sequestered Outlays	11,727.5

Balanced Budget and Emergency Deficit Control Act of 1985

(D) SPECIAL RULES FOR FISCAL YEAR 1986.—(i) For purposes of applying this section and section 251 with respect to the fiscal year 1986—

(I) the order issued by the President under paragraph (1) of this subsection shall be considered the final order of the President under this section; and

(II) the Committees on Appropriations of the House of Representatives and the Senate may, after consultation with each other, define the term "program, project, and activity", and report to their respective Houses, with respect to matters within their jurisdiction, and the order issued by the President shall sequester funds in accordance with such definition.

Conference Report (No. 99-439) on 1986 USDA Appropriations Act

FISCAL YEAR 1986 SEQUESTRATION PROCEDURES

Should a sequestration be required during fiscal year 1986, for the purposes of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following information provides the definition of the term "program, project, and activity" for appropriations for Agriculture, Rural Development, and Related Agencies programs. The term "program, project, and activity" shall include the most specific level of budget activities detailed in the Agriculture, Rural Development, and Related Agencies Appropriation Act for Fiscal Year 1986 (H.R. 3037), the House and Senate Committee reports on the bill (H. Rept. 99-211 and S. Rept. 99-137), as well as the conference report and the accompanying joint explanatory statement of the managers of the committee of conference.

In carrying out the Presidential Order, agencies shall apply this definition to all items specified in the explanatory notes as changed by congressional action, and in addition:

For the Agricultural Research Service the definition shall include specific research locations as identified in the explanatory notes and lines of research specifically identified in the reports of the House and Senate Appropriations Committees.

For the Soil Conservation Service the definition shall include individual flood prevention projects as identified in the explanatory notes and individual operational watershed projects as summarized in the notes.

For the Farmers Home Administration the definition shall include individual State, district and county offices.

For the Agricultural Stabilization and Conservation Service the definition shall include individual State and county offices.

UNITED STATES DEPARTMENT OF AGRICULTURE

Outlays

($ Thousands)

1. Subject to FY 1986 Sequester

	Previous Estimate	Sequester	Revised Estimate
CCC Crop Year 1986 programs..........	$18,947,284	$824,590	$18,122,694
All Other USDA programs..............	10,211,088	439,077	9,772,011
Total............................	29,158,372	1,263,667	27,894,705

* * * * *

2. Exempted from FY 1986 Sequester

Exempted Programs:	
Food Stamps.........................	$11,859,079
WIC and CSFP........................	1,617,018
Child Nutrition.....................	3,911,345
Subtotal..........................	17,387,442
Outlays from prior year obligations:	
CCC	14,952,000
All other..........................	2,068,527
All other exemptions.................	4,205,896
Total............................	38,613,865

UNITED STATES DEPARTMENT OF AGRICULTURE

Balanced Budget and Emergency Deficit Control Act of 1985
Spending Authority
(Dollars in Thousands)

Agency or Item	1985	1986 Spending Authority	Sequester Order	Revised 1986
Office of the Secretary:				
Office of the Secretary	5,345	5,758	-248	5,510
Trust Funds	213	147	- -	147
Total, OSEC	5,558	5,905	-248	5,657
Departmental Administration	15,239	15,401	-662	14,739
Office of Budget and Program Analysis	3,805	3,773	-162	3,611
Working Capital Fund	6,000	5,964	- -	5,964
Rental Payments and Building Operations	66,894	68,706	-3,046	65,660
Advisory Committees	1,385	1,315	-57	1,258
Office of Governmental and Public Affairs	7,657	7,673	-330	7,343
Office of the Inspector General	46,321	46,495	-1,999	44,496
Office of the General Counsel	15,903	15,773	-678	15,095
Federal Grain Inspection Service	6,994	7,003	-301	6,702
Agricultural Research Service	490,106	499,866	-21,494	478,372
Buildings and Facilities	22,350	6,312	-271	6,041
Trust Funds	1,509	2,000	- -	2,000
Total, ARS	513,965	508,178	-21,765	486,413
Cooperative State Research Service	307,116	291,480	-12,534	278,946
Extension Service	343,727	342,747	-14,738	328,009
National Agricultural Library	11,464	11,272	-485	10,787
Animal and Plant Health Inspection Service:				
Salaries and Expenses	298,557	314,388	-13,519	300,869
Buildings and Facilities	2,361	4,236	-182	4,054
Trust Funds	5,103	4,735	- -	4,735
Total, APHIS	306,021	323,359	-13,701	309,658
Food Safety and Inspection Service:				
Salaries and Expenses	364,635	362,079	-15,569	346,510
Trust Funds	686	825	- -	825
Total, FSIS	365,321	362,904	-15,569	347,335
Economic Research Service:				
Economic Research Service	47,147	46,097	-1,982	44,115
Trust Funds	28	- -	- -	- -
Total, ERS	47,175	46,097	-1,982	44,115
Statistical Reporting Service:				
Statistical Reporting Service	58,287	58,725	-2,525	56,200
Trust Funds	209	160	- -	160
Total, SRS	58,496	58,885	-2,525	56,360
Agricultural Cooperative Service	4,675	4,685	-201	4,484
World Agricultural Outlook Board	1,676	1,670	-72	1,598
Agricultural Marketing Service:				
Marketing Services	30,916	31,887	-1,371	30,516
Payments to States and Possessions	990	984	-42	942
Perishable Agricultural Commodities Act	3,403	3,356	-144	3,212
Section 32	487,263	376,723	- -	376,723
Trust Funds	79,231	78,378	- -	78,378
Total, AMS	601,803	491,328	-1,557	489,771

Agency or Item	1985	1986 Spending Authority	Sequester Order	Revised 1986
Office of Transportation	2,843	2,451	-105	2,346
Packers and Stockyards Administration	9,035	9,146	-393	8,753
Agricultural Stabilization and Conservation Service:				
Salaries and Expenses	50,556	198	- -	198
Dairy Indemnity Program	100	99	-4	95
Agricultural Conservation Program	190,000	188,860	-8,121	180,739
Forestry Incentives Program	12,500	12,425	-534	11,891
Water Bank Program	8,800	8,747	-376	8,371
Total, ASCS	261,956	210,329	-9,035	201,294
Federal Crop Insurance Corporation:				
Administrative and Operating Expenses	200,502	219,026	-9,418	209,608
Subscription to Capital Stock	113,000	- -	- -	- -
Federal Crop Insurance Corporation Fund	160,000	134,190	- -	134,190
Total, FCIC	473,502	353,216	-9,418	343,798
Temporary Emergency Food Assistance Program	57,000	49,700	-2,137	47,563
Office of Rural Development Policy:				
Salaries and Expenses	2,345	407	- -	407
Farmers Home Administration:				
Rural Housing Insurance Fund	2,521,879	2,664,959	-49,914	2,615,045
Agricultural Credit Insurance Fund	2,980,887	2,087,678	-65,446	2,022,232
Rural Development Insurance Fund	719,812	813,467	-18,290	795,177
Rural Water and Waste Disposal Grants	115,000	114,310	-4,915	109,395
Very Low-Income Housing Repair Grants	12,500	12,425	-534	11,891
Rural Housing Preservation Grants	5,000	20,000	-860	19,140
Rural Housing for Domestic Farm Labor	- -	9,940	-427	9,513
Mutual and Self-Help Housing	8,000	7,952	-342	7,610
Rural Community Fire Protection Grants	3,250	3,230	-139	3,091
Rural Rental Assistance Payments	52,250	- -	- -	- -
Compensation for Construction Defects	1,000	745	-32	713
Salaries and Expenses	352,297	373,945	-16,041	357,904
Total, FmHA	6,770,975	6,108,651	-156,940	5,951,711
Rural Electrification Administration:				
Rural Electrification and Telephone Revolving Fund (Authority to Borrow)	152,504	- -	- -	- -
Rural Telephone Bank:				
Purchase of Capital Stock	30,000	30,000	-1,290	28,710
Rural Telephone Bank (Authority to Borrow)	97,625	109,463	-7,955	101,508
Rural Communication Development Fund:				
Reimbursement for losses	305	1,648	- -	1,648
Salaries and Expenses	30,664	30,804	-1,325	29,479
Reimbursement to the Rural Electrification and Telephone Revolving Fund for Interest Subsidies and Losses	215,964	100,000	- -	100,000
Total, REA	527,062	271,915	-10,570	261,345

Agency or Item	1985	1986 Spending Authority	Sequester Order	Revised 1986
Soil Conservation Service:				
Conservation Operations	364,920	364,289	-15,620	348,669
River Basin Surveys and Investigations	14,906	14,817	-537	14,180
Watershed Planning	8,922	8,868	-381	8,487
Watershed & Flood Prevent. Operations	183,843	230,692	-9,920	220,772
Resource Conservation and Development	26,320	26,162	-1,125	25,037
Great Plains Conservation Program	21,531	21,402	-920	20,482
Trust Funds	431	560	- -	560
Total, SCS	620,873	666,790	-28,603	638,187
Food and Nutrition Service:				
Child Nutrition Programs	3,804,680	3,873,191	-144	3,873,047
Special Milk Program	17,600	11,500	- -	11,500
Women, Infants and Children Programs	1,500,000	1,560,580	-86	1,560,494
Commodity Supplemental Food Program	24,918	36,777	- -	36,777
Food Stamp Program	11,751,527	11,764,884	-2,568	11,762,316
Nutrition Assistance for Puerto Rico	825,000	820,050	- -	820,050
Food Donations Programs	139,546	193,405	-8,316	185,089
Food Program Administration	84,187	82,007	-3,526	78,481
Total, FNS	18,147,458	18,342,394	-14,640	18,327,754
Human Nutrition Information Service	7,533	13,481	-580	12,901
Foreign Agricultural Service	83,622	83,046	-3,571	79,475
Office of International Cooperation and Development:				
Salaries and Expenses	5,038	5,384	-232	5,152
Scientific Activities Overseas (Foreign Currency Program)	5,000	2,982	-128	2,854
Trust Funds	4,789	3,257	- -	3,257
Total, OICD	14,827	11,623	-360	11,263
Public Law 480	1,964,000	1,299,158	-55,864	1,243,294
Forest Service:				
Forest Research	113,826	125,525	-5,398	120,127
State and Private Forestry	58,292	57,638	-2,478	55,160
National Forest System	1,111,548	1,048,301	-45,077	1,003,224
Land Acquisition	50,535	28,130	-1,210	26,920
Construction	111,794	222,522	-9,568	212,954
Acquisition of lands for national forests, special acts	766	777	-33	744
Acquisition of lands to complete land exchanges	42	20	- -	20
Range Betterment Fund	3,966	3,798	- -	3,798
Operations and Maintenance of Quarters	4,854	5,100	- -	5,100
Miscellaneous Contributed Funds	234,660	155,180	-4	155,176
Permanent Appropriations	388,779	374,557	- -	374,557
Reforestation Trust Fund	37,405	30,000	- -	30,000
Total, Forest Service	2,116,467	2,051,548	-63,768	1,987,780
Commodity Credit Corporation	15,192,013	22,398,332	-823,126	21,575,206
Total, USDA	48,988,706	54,492,800	-1,271,722	53,221,078
Farmers Home Administration	11,520,000	3,400,108	-133,099	3,267,009
Rural Electrification Administration	2,441,359	2,346,800	-1,462	2,345,338
Total, FFB Items	13,961,359	5,746,908	-134,561	5,612,347
USDA TOTAL	62,950,065	60,239,708	-1,406,283	58,833,425

UNITED STATES DEPARTMENT OF AGRICULTURE
Program Level
(In Millions of Dollars)

	1985	1986	Sequester Order	Revised 1986
FmHA:				
ACIF:				
Ownership Loans:				
Insured	652.6	400.0	-11.1	388.9
Guaranteed	67.9	260.0	-10.7	249.3
Total, Ownership	720.5	660.0	-21.8	638.2
Operating Loans:				
Insured	3,600.0	1,578.0	-74.8	1,503.2
Guaranteed	1,106.9	1,734.0	-73.1	1,660.9
Total, Operating	4,706.9	3,312.0	-147.9	3,164.1
Soil & Water Loans:				
Insured	9.8	22.0	-0.9	21.1
Guaranteed	0.0	6.0	-0.3	5.7
Total, S & W	9.8	28.0	-1.2	26.8
Indian Land Acquis.	1.4	4.0	-0.1	3.9
Water. & Flood Prev.	2.2	14.0	-0.8	13.2
RC & D Loans	0.5	2.0	-0.1	1.9
Total, ACIF Ongoing	5,441.3	4,020.0	-171.9	3,848.1
Emergency Loans	490.9	1,300.0	-55.9	1,244.1
Interest Buy Down	0.0	120.0	-5.2	114.8
Total, ACIF	5,932.2	5,440.0	-233.0	5,207.0
RHIF:				
Low-Inc. Hous. (502)	1,789.6	1,400.0	-60.2	1,339.8
V/L Inc. Hous. (504)	7.9	15.0	-0.6	14.4
Domestic Farm Labor	17.6	12.0	-0.5	11.5
Rural Rental Housing	903.3	700.0	-30.1	669.9
Site Development	0.0	0.6	0.0	0.6
Total, RHIF	2,718.4	2,127.6	-91.4	2,036.2
RDIF:				
Water & Waste Loans	340.0	340.0	-14.6	325.4
Community Facility	115.0	100.0	-4.3	95.7
Guaranteed B&I Loans	61.3	100.0	-4.3	95.7
Total, RDIF	516.3	540.0	-23.2	516.8
Self-Help Hous. Land	1.3	0.0	0.0	0.0
Grants & Payments:				
Water & Waste Grants	129.0	116.6	-4.9	111.7
RH for Domestic Farm	12.1	11.2	-0.4	10.8
V/L Income Repair	12.5	12.4	-0.5	11.9
Mutual & Self-Help	10.8	10.5	-0.3	10.2
Rural Comm. Fire Prot	3.2	3.2	-0.1	3.1
Rural Hous. Preserv.	0.0	20.0	-0.9	19.1
Comp. for Const. Def.	0.5	0.7	0.0	0.7
Rural Rental Payments	168.2	167.5	-7.2	160.3
TOTAL, FmHA	9,504.5	8,449.7	-361.9	8,087.8

	1985	1986	Sequester Order	Revised 1986
REA:				
Electric Loans:				
Insured	562.0	650.0	-27.9	622.1
Guaranteed	74.6	850.0	-36.5	813.5
Total, Electric	636.6	1,500.0	-64.4	1,435.6
Telephone:				
Insured	224.6	250.0	-10.8	239.2
Guaranteed	0.0	125.0	-5.4	119.6
Total, Telephone ...	224.6	375.0	-16.2	358.8
Rural Tele. Bank	167.8	185.0	-8.0	177.0
TOTAL, REA	1,029.0	2,060.0	-88.6	1,971.4

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

FCA
FARM CREDIT ADMINISTRATION

January 30, 1986

Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed is a letter we sent recently to the Office of Management and Budget, Comptroller General, and the Congressional Budget Office detailing the reasons why the sequestration process of Gramm-Rudman-Hollings is not applicable to the Farm Credit Administration's budget.

We appreciate your interest and welcome your assistance in this matter.

Sincerely,

Donald E Wilkinson

Donald E. Wilkinson
Acting Chairman

Enclosure

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

FCA
FARM CREDIT ADMINISTRATION

January 29, 1986

Mr. Charles A. Bowsher
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

The Farm Credit Administration's, ("FCA") analysis of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), hereafter referred to as the "Act", has prompted the forwarding of this letter to elaborate on factors pertinent to the sequestration process and its nonapplicability to the FCA budget.

As an independent regulatory agency, the FCA is totally funded by assessments against the privately owned institutions of the Farm Credit System ("System"), pursuant to Section 5.15 of the Farm Credit Act of 1971, as amended ("1971 Act"), and not by appropriated funds. Operating expenses of the FCA are paid by the System institutions through these assessments which are deposited in a special fund in the Treasury and, without regard to other law, are available for the FCA's use. Consequently, there are no U.S. tax dollars supporting the FCA activities. The FCA has determined that the FCA budget is analogous to a trust fund and, as such, the FCA special fund is specifically exempt from reduction under any order as provided in Sec. 255 (g) of the Act, "Exempt Programs and Activities" specifically "Payments to trust funds from excise taxes or other receipts properly creditable to such trust funds."

Furthermore, Section 5.15 of the 1971 Act, elaborates on the mechanics of administering the special fund for administrative expenses and provides, in part, that end-of-year unobligated balances will be refunded to System institutions. Refunds, if any, are made by a reduction to assessments for the 2nd quarter of the subsequent fiscal year. Thus, FCA compliance with a reduction or sequestration order issued under the Act would violate the 1971 Act. In addition, compliance with such an order would result in an illegal conversion of non-appropriated funds into the U.S. Treasury.

Additionally, the recently passed Farm Credit Amendments Act of 1985 imposes significantly expanded authorities on the FCA which are designed to address the serious problems facing agricultural credit institutions and their borrower/owners. Because of these factors, we believe that application of the Act to the FCA is inappropriate and inconsistent with the intent of the Act.

We are sending this letter to the Director, Office of Management and Budget and the Director of the Congressional Budget Office with the expressed desire that a mutual determination can be reached in the near future by your representatives, with FCA participation, concerning a technical adjustment to eliminate the proposed sequestration order of $1.321 million against the FCA's FY 86 budget.

We would be most appreciative of your prompt reply on this matter. For further information, please contact Mary K. Mathews, Director, Administrative Division on 883-4148.

Sincerely,

Donald E Wilkinson

Donald E. Wilkinson
Acting Chairman